

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

Why sanctions cannot
be assured
of success, Page 11

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World news

Business summary

Four survive Japan air crash

Two women and two girls appear to be the sole survivors of a Japan Airlines Boeing 747 which crashed with 524 passengers and crew on board in mountainous countryside 75 miles north-west of Tokyo. The survivors had to be lifted by military helicopter from the remote area. Rescue operations were called off after about 50 bodies had been recovered.

The accident is likely to cause aviation underwriters to reconsider their rates on what was regarded as the safest airliner in operation. Page 3

Rebels seize town

Uganda's most powerful rebel group has seized control of Masaka, the country's third-largest town, said travellers returning from the area. In Dar es Salaam peace talks with Uganda's new military rulers failed to take place.

Anti-Marcos move

Philippines' ruling New Society Movement blocked an opposition motion calling for the impeachment of President Ferdinand Marcos.

Miners killed

Twenty-one miners died and 27 were injured in a methane gas explosion at the state-owned coal mine at Secunda near Johannesburg.

Businessman killed

Gummen on a motorcycle shot and killed a leading Guatemalan businessman as he drove through the city.

Union Carbide leak

Union Carbide, the U.S. chemicals company, said that the gas involved in the leakage at its Institute, West Virginia plant was "10 times less toxic" than the chemical which killed more than 2,000 people at the group's Bhopal plant in India. Page 4

India train blast

Two people were killed and several injured when an explosion ripped through a compartment reserved for troops on a train in northern India.

Israel land probe

A Tel Aviv District Court remanded three Israelis for 15 days while police investigated whether large tracts of private land were acquired fraudulently in the occupied West Bank.

Soldier's 'murder'

West German police said they were considering evidence that the Red Army Faction guerrilla group murdered a U.S. soldier to carry out a car bomb attack on the U.S. Rhein-Main air base. The guerrillas may have used his identity papers to enter the base.

Secret airstrips

Peruvian Attorney General Cesar Ejido said there were more than 250 clandestine airstrips from which the raw material for more than half the world's cocaine was flown out.

Black Sea escape

Two Soviet engineers crossed the Black Sea in a rubber boat and asked for political asylum in Turkey.

Building collapses

At least 43 people were killed and 75 injured when a residential building in Bombay collapsed.

Politician quits

Former Danish Foreign Minister Kjeld Olesen, a leader of the opposition Social Democrats, has left politics after admitting making false accusations against Danish security services.

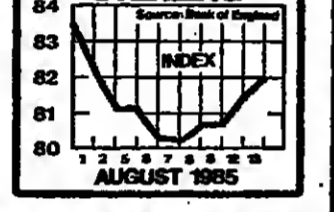
U.S. to review trade policy

THE Reagan Administration began a review of its trade policy, in response to mounting political and commercial pressures, according to Commerce Secretary Donald Regan. Secretary for International Trade at the Commerce Department. Page 4

WALL STREET: At 4pm the Dow Jones industrial average was 4,033.16, up from 4,018.32. Page 30

TOKYO shares lost ground on a reduced turnover. The Nikkei-Dow market average fell 48.17 to 12,328.71. Page 30

LONDON equities closed lower after early support. The FT Ordinary share index closed 4.6 lower at 959.8. Gits were marginally firmer. Page 30



STERLING was firmer in London, gaining 60 points to \$1.3585. It also improved to DM 3.875 (DM 3.8675), SwFr 3.2 (SwFr 3.185), FFf 11.84 (FFf 11.82) and Y330.25 (Y328.0). The pound's exchange rate index rose to 82.0 from 81.5. Page 23

DOLLAR lost ground in nervous London trading, closing at DM 2.784 (DM 2.7975), SwFr 2.2875 (SwFr 2.304) and FFf 8.51 (FFf 8.525). It was slightly firmer at Y237.25 (Y237.3). On Bank of England figures, the dollar's exchange rate index fell from 137.1 to 136.5. Page 23

GOLD rose \$0.25 on the London bullion market to \$326.25. It lost \$0.50 in Zurich, also to \$326.25. Page 22

JAPAN should not try to solve its trade imbalance with the U.S. by indulging in export restraints, according to the new U.S. Trade Representative Clayton Kopp. Page 4

U.S. retail sales climbed a modest 0.4 per cent in July, the Commerce Department reported, dimming hopes for a strong consumer-led recovery of the sluggish economy. Page 4

U.S. NAVY said it lifted a ban on contracts to General Dynamics and would award more than \$1bn in work to the company's Electric Boat and Pomona divisions. The Navy suspended contracts in May after disputes over work and overhead bills.

STANDARD CHARTERED became first UK bank to try to boost its capital by offering to swap floating rate notes that do not qualify as primary capital under the Bank of England's rules for new ones that do. Page 12

NATIONAL Westminster Bank, of the UK, has sold its 49.8 per cent stake in Diners Club UK to its former partner in the charge card company, Citicorp of the U.S. Page 6

FRENCH new-car registrations totalled 104,057 in July, 14.8 per cent more than in July 1984 according to the Car Manufacturers Association.

TWA, the embattled transatlantic U.S. airline, deferred a decision on the two rival bids for the company as it sought to resolve the power struggle between Texas Air and Mr Carl Icahn, Wall Street investor. Page 13

RUPERT MURDOCH agreed in principle to buy Metromedia Producers Corporation, distributor of the U.S. TV soap opera Dynasty, at a cost of between \$20m and \$40m. Page 13

GENERAL MOTORS, the world's biggest car group, is to spend about \$75m to modernise its metal-stamping plant at Marion, Indiana. Page 13

Pretoria dampens hopes for major apartheid reforms

By MICHAEL HOLMAN AND JIM JONES IN JOHANNESBURG

THE SOUTH AFRICAN Government yesterday dampened hopes that President P.W. Botha would announce major political reforms tomorrow night in an attempt to quell continuing violence which yesterday included a petrol bomb attack on the home of Mrs Winnie Mandela, wife of the detained nationalist leader.

Mrs Mandela has not been living in her home since a police raid last week. She has said that security police were to blame, while police say "terrorists" were responsible.

Mr Botha's scheduled speech to the Natal congress of the ruling National Party had been billed as likely to contain substantial changes to apartheid laws. But signals yesterday from a senior Government minister, the state-controlled radio and a pro-government newspaper suggested a co-ordinated attempt to quell speculation and end what the radio called "rights of fancy".

Dr Gerrit Viljoen, Minister of Co-operation, Development and Education, whose portfolio embraces most laws affecting blacks, told a National Party meeting in Pretoria on Monday evening that the Government envisages reform only within the framework of South Africa's diversity of peoples.

In South African terminology that suggests no fundamental change to apartheid. To underline this, Dr Viljoen, who is one of the most powerful cabinet ministers, assured the party faithful that reform envisaged by the Government entailed maintenance of separate residential areas, separate schools, separate educational departments and separate political representation.

The impact of the minister's speech was underlined by Mr Stephen Solars, a U.S. Congressman and staunch opponent of South Africa, following a meeting with President Botha in Pretoria on Monday.

Before the weekend and after discussions with other cabinet ministers, Mr Solars had declared his confidence that the South African Government was planning major changes.

On Monday night, however, he said that after talks with Mr Botha he was less optimistic about either peaceful change in South Africa or the unconditional release of Mr Nelson Mandela, leader of the banned African National Congress.

As a result, Mr Solars said, the U.S. Senate was likely next month to approve anti-apartheid legislation already passed by the House of Representatives.

In its daily commentary yesterday, South African radio - which generally reflects government thinking - appeared to backtrack on some of the high hopes it raised last week when it suggested that a major policy statement was imminent. Any reform, it said yesterday, should acknowledge two "fundamental political realities".

The first was the right of minority groups to manage their own affairs and maintain their life-style free of interference. The second, said the radio, was the interdependence of these groups. Although the language was coded in part, the central message suggests that fundamental reforms are out of the question.

The same message came from The Citizen, a pro-government newspaper, which warned that only small changes were likely to be announced in Durban, and suggested that changes to the homeland system were unlikely, as was any unconditional release of Mr Mandela.

If Mr Botha's speech proves an anti-climax, it could harm South Africa's reputation.

Continued on Page 12

Profile of Mandela, Page 3; why sanctions are not assured of success, Page 11

Sanko seeks protection but hopes for revival

By CARLA RAPOPORT IN TOKYO

SANKO STEAMSHIP, the world's largest tanker operator, filed yesterday for protection under Japan's bankruptcy laws, with current liabilities of about ¥200m (\$2.2m).

Including future liabilities and debts owed by subsidiary companies, Sanko's total debts are estimated at about ¥1,000m, making its collapse the largest on record in Japan.

Speaking at a district court in Kobe yesterday, Sanko executives said they hoped the company would emerge from the court procedures in a new form, perhaps with a smaller fleet. The company apologised to shareholders and customers for the collapse and called on its bankers and its clients among the Japanese trading companies to assist it through the next few months.

Mr Toshio Komoto, former head of Sanko Steamship, made clear that he intended to try to continue as leader of a political faction within Japan's ruling Liberal Democratic Party, but the future of his group was in doubt as Mr Yasuhiro Nakasone, the Prime Minister, accepted his resignation as State Minister for external economic relations. Page 3

Daikwa Bank, Sanko's leading creditor, said in a statement yesterday that the collapse was "regrettable" and that it would help to lead assistance to the company in future if that would help the group emerge from the collapse in some viable form. Daikwa was speaking on behalf of Sanko's main creditors, which include Tokai Bank, and the Long-Term Credit Bank.

The news was accepted calmly in Tokyo markets yesterday. Sanko's main creditors did not suffer large falls in their share prices.

Daikwa Bank, which is owed ¥100m, said that its "hidden reserves" exceeded ¥500m and could easily cover its losses on Sanko's collapse. Japanese banks' hidden reserves are largely composed of equities bought years ago and valued at their purchase price, not their current worth.

Sanko has filed for protection under Japan's Corporate Rehabilitation Law. Under this system, a court-appointed trustee will investigate Sanko's affairs and decide

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Continued on Page 12

Bundesbank set to cut rates

By JONATHAN CARR IN FRANKFURT

THE West German Bundesbank - the central bank - looks set to cut its key lending rates shortly, barring a highly unexpected surge in U.S. interest rates and the dollar.

The action could come at tomorrow's meeting of the policymaking central bank council, the first after the summer vacation. But if the council members finally decide to delay, cuts in discount and Lombard rates, probably of 4 point, will be all the more likely at the next meeting a fortnight later.

Many people believe the reductions are overdue. The Bundesbank last dropped its key rates in March, 1983, and in the meantime has raised them again to a current level of 4.5 per cent for the discount and 6 per cent for the Lombard.

That rise might well have seemed justified against the background of the soaring dollar, capital outflows from Germany and a danger of imported inflation. But the D-Mark has now strengthened to less than DM 2.80 to the dollar (compared with the high of DM 3.47 in February) and inflation is running at only about 2.3 per cent at an annual rate.

The long-term capital account is also improving, with a surplus of DM 948m in June compared with a deficit of DM 539m in the same month last year.

A key reason for the improvement is that foreigners are investing heavily in German stocks and bonds, evidently in the strengthening belief that the so-called "fundamentals" - trade and current account surpluses together with the inflation rate - indicate further D-Mark appreciation.

Apart from that external, currency argument, there are strong reasons why the German domestic economy needs all the interest rate cuts it can get. There are still more than 2.2m people unemployed, and it is not certain that if the export boom fades, domestic demand will be buoyant enough to make up for it.

Hence the Bonn Government's increasingly frequent appeals to the banks to pass on the benefit of cheaper refinancing costs to their customers (not least to medium-sized enterprises especially vulnerable to high interest rates).

The Bundesbank can fairly argue that it has been encouraging a fall in domestic interest rates; not by banning the "big drum" and dropping discount and/or Lombard, but by using sophisticated, relatively

noiseless, open market conditions. Its key instrument has been the so-called Wertpapierpfandbriefgeschäft - under which the Bundesbank buys securities on condition that the selling banks repurchase them forward.

By means of these "repurchasing agreements," the central bank has not only weaned the banks away from their previous, excessive reliance on Lombard borrowing, a facility intended to provide only temporary injections of liquidity. It has also been able to coax down money market rates by a judicious mix of "fine tuning" and psychology.

If this system works so well, why not continue with it and leave the key rates unchanged? One technical reason is that the gradual downward trend of rates generally has made the "official corridor" (between Lombard at 6 per cent and discount at 4.5 per cent) look a bit redundant.

The second reason has more to do with psychology and public relations. The struggle for lower unemployment and more economic growth remains the biggest national concern.

Money markets, Page 23

Unilever slips as competition halves U.S. profits

By Frank Kane in London

UNILEVER, the Anglo-Dutch foods and consumer products group, said yesterday that its pre-tax profits fell by £6m to £286m (\$370m) in the second quarter, leaving its first-half figures only 4 per cent ahead at \$84m.

The disappointing performance was a result of two main factors: severe competition in the U.S., where profits may have fallen by as much as 50 per cent, and problems in the edible fats and detergents operations in Europe, especially in West Germany.

Analysts forecast last night that the full year would show a further profit decline, possibly to around £900m, depending on exchange rates. Last year Unilever made £924m pre-tax.

The gloomy outlook pushed the group's shares down £4 to £10 in London. The Dutch shares, also traded in London, closed £4 down at £45.25. In Amsterdam, however, Unilever shares gained £1 3/4 to £329.50.

Unilever has spent heavily on promotion of its U.S. brands of shampoo and detergent, and has been engaged in a "pump-pack" war with Colgate for the market in the new type of toothpaste dispenser.

Its edible fats operations in Europe have been squeezed at the margins by other "margarine" products, and one analyst suggested that the sale last Christmas of cheap EOC surplus butter also hit its market share. Restructuring costs associated with these operations cut the group's profit margins.

In West Germany, Unilever has been carrying out a reorganisation programme in both its detergent activities, and this has meant the running-down of surplus capacity and a reshuffle of senior management. The company said yesterday that it did not expect to see the benefits of the German reorganisation until 1986.

Sales for the half year were 17 per cent ahead at £9,260m, but slowed slightly in the second quarter, and the overall sluggishness of sales - with low volumes especially in West Germany - was seen by analysts as a bad omen for the year.

On the plus side, the company said that its operations outside Europe and North America had performed well, with operating profits some 25 per cent up and an especially good result from detergents in the quarter. They also pointed to the positive, but unspecified, contribution from Brooke Bond, acquired last year. Excluding Brooke Bond, profits in Europe were fairly flat.

Lex, Page 12; Details, Page 16

U.S. holds up Sino-French high-tech deal

By DAVID MARSH IN PARIS

THE U.S. Government is holding up export by France to China of a sophisticated business communications system because of fears that the equipment could be used for military purposes.

The action underlines Washington's continued sensitivity about high-technology trade with China, despite recent efforts, spearheaded by the U.S. itself, to ease restrictions. The issue is believed to have left the U.S. virtually isolated in the 15-member Paris-based Co-ordinating Committee (CoCom), which vets Western sales to Communist countries.

The Sesa order comprises both computer hardware and software. The company has already sold a similar system to Taiwan.

French officials said the Sesa order, which is still under review by CoCom, may have been held up because the U.S. was suspicious about the relatively advanced nature of the system. Britain and other European countries, on the other hand, voted for the deal to go through.

As a sign that other high-technology deals with China are being handled on a more liberal basis, a FFf 500m contract won in January by Alcatel-Thomson has gone through CoCom procedures with no problems. The civil telecommunications

Continued on Page 12

China sentences U.S. businessman, Page 3

UK backs Jordanian arms deal with loan

By RICHARD JOHNS IN LONDON

ELECTRONIC WARFARE equipment and other high-technology items are expected to figure prominently in a list of British defence supplies to be purchased by Jordan through a £220m (\$372m) financing facility backed by the UK Government.

The mandate for arranging the loan has been awarded by the Jordanian Government to a consortium led by Morgan Grenfell. Its other members are the Midland Bank and the Arab Bank Investment Company.

The loan package is covered by the Export Credits Guarantee Department and is understood to include a substantial subsidy element meaning that the average rate of interest to be paid by the Jordanian Government will be in the 8 to 9 per cent range, significantly below the 11.2 per cent consensus rate for the country.

The consortium is beginning talks with the Jordanian Government on the possibility of topping up the facility with extra lending on straight commercial terms. Jordan has a good credit rating and a \$250m syndicated loan raised earlier this year by the Arab Bank was oversubscribed.

It is believed that Javelin ground-to-air missiles manufactured by Short Brothers of Belfast will not be involved in the deal despite the U.S. Administration's refusal under pressure from the pro-Israeli lobby on Capitol Hill 18 months ago, to permit the sale to Jordan of its American rival, the Stinger.

Subsequently, Jordan ordered Soviet missiles including the hand-held, Sam 7 "Grail" under very favourable credit terms. For the time being, King Hussein appears to be reconciled to Soviet anti-aircraft missile systems.

Mid-East peace moves, Page 3

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RESOURCES REVIEW

How Finland's largest mining company is coping with a sea change

By Olli Virtanen in Helsinki

FINLAND'S SIZABLE mining industry, the largest in Western Europe, is undergoing a sea change.

The country has traditionally been an important producer of copper, zinc, cobalt, chromium and nickel. But faced with depleting domestic mineral resources, it is having to look abroad with increasing vigour for its raw materials. As a result, metal processing is playing an ever-greater role in the industry's activities.

The hunt for new supplies is being led by state-owned Outokumpu, by far the largest Finnish mining company and the largest producer of nickel and chromium in Western Europe. Its problem is plain: four of its nine operating mines

are due to close by the end of this decade.

Not that the company is unduly worried. For last year it reported pre-tax profits of FM 449m (£35m)—an increase of more than 300 per cent over depressed 1983.

So far this decade, Outokumpu has managed to maintain its excavation level at roughly 5m tonnes of ore per year. The company's own mines produce about half of the concentrates used in its metal production.

It has also kept up momentum by boosting imports of concentrates, diversifying its operations and raising their added-value content.

The company began to import concentrates at the end of the 1960s, when it built a large zinc plant whose capacity could not be filled simply from domestic production.

Since then, the Finnish metallurgical industry has developed apace. In the last 10 years alone, the country has invested about FM 5.5bn (£675m) in metal production.

Outokumpu now has plants for zinc, cobalt, nickel and anode copper and copper electrolytes. Total sales of its metallurgical division last year stood at FM 1.99bn—more than 40 per cent of the total—with 88 per cent of that going for export.

Mr Pertti Voutilainen, Outokumpu's chief executive, seems unconcerned about the company's depleting domestic resources and increasing reliance on foreign concen-



Mr Pertti Voutilainen, Outokumpu's chief executive

Secondly, he believes that the price of raw materials will sink because of new, more sophisticated excavation methods. This will help Outokumpu—so the argument goes—by lowering its production costs and putting what Mr Voutilainen regards as superior Finnish mining technology to better use both within the country and in export markets.

He cites the new Finnish nickel mine at Enontoski as an example. Construction work at the new underground mine, due to open early next year, will take only about 18 months, compared with a normal lead time of five to six years in a developing country. The mine should be a formidable competitor because of its efficient mechanised operations.

Outokumpu has an important stake in manufacturing machinery for the mining and metals businesses, which is now a FM 1bn industry in its own right in Finland.

Nevertheless, the company acknowledges that neither highly developed excavation techniques nor increased exploration will do—even as stop-gap measures. To ensure a smooth flow of imports, Outokumpu has bought equity in foreign mining companies, and its long-term aim is to obtain at least half its imports from mines in which it is a shareholder.

The company is most active in Norway where it owns 50 per cent of Lökken Gruher. It bought 100 per cent of Bidjovakke last year. The

Lökken mine had an output of 275,000 tonnes of ore which yielded 5,310 tonnes of copper and 3,280 tonnes of zinc last year. The Bidjovakke mine was reopened recently and its copper content will average about 1,800 tonnes annually for the next four years.

● In Canada Outokumpu has a 9.2 per cent holding in Trout Lake mine which last year produced 445,000 tonnes of ore containing 10,000 tonnes of copper and 12,700 tonnes of zinc.

● Outokumpu is a shareholder in a number of exploration ventures around the world. Most notable targets at the moment are Canada and Mexico. The company has also shown interest in prospecting in Ireland, the U.S., Chile and Peru.

What makes Outokumpu different among international mining companies is its highly developed integration. A mine and a smelter together is relatively common, but an operation handling concentrates which contain a variety of metals and producing metals and metal products from it is fairly rare.

For example, Outokumpu is probably the only company in the world that controls the whole production process for stainless steel, from raw material to refined products.

At the same time the company has invested in other downstream activities, concentrating on more refined products. "Finland doesn't export logs but paper," says Mr Voutilainen.

Last year output of semi-finished copper products rose by 15 per cent to 62,800 tonnes.

OUTOKUMPU'S OUTPUT

The company's main products in 1984	Production (tonnes)
Cobalt	1,430
Cathode copper	57,300
Semi-finished copper	62,800
Nickel	15,340
Zinc	158,900
Stainless steel	131,500
Ferro-chrome	53,600

The Finnish company has also bought two American copper mills, Nippert and Valleyeast in order to develop further their copper refining.

Stainless steel is another fast developing sector at Outokumpu. Based on the Kemi chromium mine and the company's own technology the division seems to have a brighter future than many of the others. Heavy investments in new production facilities are likely to continue.

This spring Outokumpu completed expansion of its ferro-chrome production capacity to 120,000 tonnes. Last year the plant produced 58,600 tonnes.

Also this spring the company decided to invest FM 600 m in a new hot rolling mill which is due to be switched on at the end of 1986.

Outokumpu's stainless steel works produced 158,000 tonnes of steel slabs and 131,000

tonnes of rolled stainless steel products last year, an increase of 50 per cent over 1983.

But whatever the merits of Outokumpu's stainless steel operation as an example of metal fabrication in Finland generally speaking it is not the shape of things to come.

Mr Voutilainen is a strong believer in internationalisation. "If we had to start from scratch today," he says, "we probably wouldn't do any fabrication in Finland. We would go to where the raw material is."

In any case, Outokumpu has another card up its sleeve: technology. In the past-war years the company lived comfortably thanks to rich copper deposits in the two mines at the village of Outokumpu. This enabled it to develop new techniques almost as a hobby. It has produced a number of world firsts.

The best known in mining circles is the flash smelting process, first developed in the early 1950s for smelting copper and later adapted to nickel and lead. Outokumpu has sold over 30 licences for the process to date. Flash smelting has two significant advantages over conventional melting processes.

First, the process requires little extra fuel because it can use energy contained within the raw material itself. Secondly, sulphur which is generated by the process can be used to make sulphuric acid, potentially of great importance in an era of environmental concern.

Another example of Outokumpu's adaptations is its metal detector. Originally developed to detect metal on mine conveyor belts, it was re-designed for use at airports and in high-security areas.

Outokumpu has delivered metal detectors to Capitol Hill and the White House, and now boasts a 40 per cent world market share.

Recently, the company ventured further into this field by buying Princeton Gamma-Tech, a New York-based manufacturer of specialised metal analysers. This gave Outokumpu an estimated 20 per cent share of the market for these devices.

Another area in which the company has diversified is ferro-chrome technology. Since 1980 five ferro-chrome plants have been commissioned around the world—four of which are based on Outokumpu's technology.

The newly-developed sector which is perhaps least well into the Outokumpu group is electronics. It ventured into this area initially to develop control systems for the mining and metallurgical industries.

But recently the company has expanded to make silicon wafers in conjunction with the Finnish electronics company Nokia—a business which Mr Voutilainen admits displays limited synergy with its central metals operations. Outokumpu also has a 25 per cent share in a Finnish company manufacturing integrated circuits.

Indeed, although the company prides itself on its international focus and its interest in pursuing diversification for its own sake, it could be argued that Outokumpu is beginning to ape its competitors.

EUROPEAN NEWS

Austerity urged by Greek bank chief

By Andriana Ierodiakonou in Athens

MR DIMITRIS Chalkias, governor of Greece's central bank, has demanded a spate of unpopular price increases on petrol, sugar and bread, announced by the Socialist Government at the end of last week.

The governor warned at a press conference that a package of stringency measures carrying "a certain short-term cost," including higher prices and taxes, cutbacks in public spending and the trimming of the existing system of wage index-linking, was necessary to tackle double-digit inflation and high current account and public sector deficits.

"The long-term benefits will offset the cost," Mr Chalkias said. The annual rate of inflation in Greece is running at 17.7 per cent—well above the EEC average—against an official target of 16 per cent for 1985. The current account deficit reached \$2.132bn in 1984, while the overall public sector deficit is running at 15.5 per cent of GNP.

Mr Chalkias denied, however, that a devaluation of the drachma was either necessary or imminent and he warned that persistent speculation on the subject was damaging the balance of payments by concentrating imports while slowing down exports.

The Greek drachma was devalued by 15 per cent in January 1983, midway through the Socialist's first term in office. Since then the authorities have followed a policy of allowing it to slide against international currencies. According to the central bank the drachma has depreciated by approximately 20 per cent in the interval, and by more than that against the dollar, with an 8 per cent slide in the first three months of 1985 alone.

The central bank governor cited low productivity and poor competitiveness at the top of the list of Greece's economic problems. He said the volume of foreign products on the Greek market had increased by 3.5 per cent against domestic products and he added that although between 1974 and 1983 real hourly earnings rose by 83 per cent, productivity only improved by 23 per cent.

Mr Chalkias, who cautioned against "unsustainable" foreign borrowing trends in a report on the economy in April, said this week that Greece's overall foreign debt stood at more than \$10bn.

The governor said that the Bank of Greece might seek a second loan on the international capital market before the end of 1985, beyond the \$450m credit secured in the first half of this year. He said that public sector organisations, such as the Organisation of Telecommunications of Greece and the Public Power Corporation were also seeking loans on the international market.

Austrian wine row claims its first financial victims

By PATRICK BLUM in Vienna

A COMPANY of Austrian wine merchants was declared bankrupt yesterday making it the first financial victim of Austria's doctored wine scandal.

Brüder Grill, a small company run by brothers Josef and Richard Grill based in Fels am Wagram some 60 km west of Vienna, was declared bankrupt by a local court in Krems near the company's headquarters after accumulating debts of Sch 128m (\$6.5m).

A spokesman for the Credit Protection Association said yesterday that this was the first case of bankruptcy connected with the wine scandal.

The two brothers were among the first to be arrested after it was revealed that a number of Austrian wines had been doctored with diethylene glycol to sweeten them. The chemical can cause serious brain and kidney damage.

A large number of wine merchants and producers have been implicated in the scandal, which has halted Austrian wine exports and seriously damaged Austria's image abroad. So far, some 40 people have been arrested and all except two who made full confessions are still being held pending fraud investigations.

The Credit Protection Association spokesman said yesterday that the company had assets worth about Sch 70m and the two brothers' personal assets were estimated at about Sch 15m but this left them unable to cover their debts.

The company employs more than 100 people, who will receive some payment in compensation for the loss of their jobs. "The problem now is that the people do not have a job any more," the spokesman said.

Other companies are also in financial trouble and the spokesman suggested that more bankruptcies

were on the way. "We know that some firms have financial problems. We cannot say yet whether there will be other bankruptcies but there might well be because many of the dealers are in prison so they cannot do their business," he said.

Meanwhile, the Government is preparing a stringent law that will impose tighter controls on wine, including mandatory formats for information on labels to prevent a repetition of the scandal.

● A minister and two other officials in the West German state of Rheinland-Palatinate have become the country's first political victims of the wine scandal, *Reuter* reports from Mainz. Herr Bernhard Vogel, the state's governor, said he had asked Herr Ferdinand Stark, Agriculture and Wine Minister, to resign. The other officials were being transferred from their posts as chief and deputy head of the ministry's wine department.

The West German federal health ministry this week listed 27 German and 803 Austrian wines found to contain a potentially lethal chemical used to make car anti-freeze. The Governor said that Herr Stark had reached "wrongly" and with "poor judgement" in the discovery of adulterated wines imported from Austria.

● French wine-growers have smashed about 20,000 bottles of Spanish wine being taken by truck to Switzerland through the southern French town of Narbonne, police told *Reuter*. They said that about 40 wine-growers attacked the truck on Monday evening in a highway rest area. The entry of Spain into the EEC at the first of next year has aroused angry protests from French farmers, who fear that their price levels will be threatened.

Turkish Cypriots find changes in UN plan

ANKARA - The Turkish Cypriots

reply to the latest UN peace plan for the island argue that major changes have been made to a draft agreement which they accepted in January, diplomatic sources said yesterday.

The sources said it was neither an acceptance nor a rejection of the latest bid by Sr Javier Perez de Cuellar, the UN Secretary-General, to establish a Federal Republic of Cyprus between the divided ethnic Greek and Turkish communities.

The reply was handed to Sr Perez de Cuellar's acting representative on the island, Mr James Hooper, last week.

What Sr Perez de Cuellar had indicated were cosmetic changes in fact breached principles accepted earlier, the sources said. These included equal status of the two communities; "bizonality"—meaning separate zones; security; and equal and effective participation in the executive and legislature.

Citing an example, they said that a provision in Sr Perez de Cuellar's earlier document that any powers not specifically allocated to the central government would go to the federal states, had been left out of the revised version.

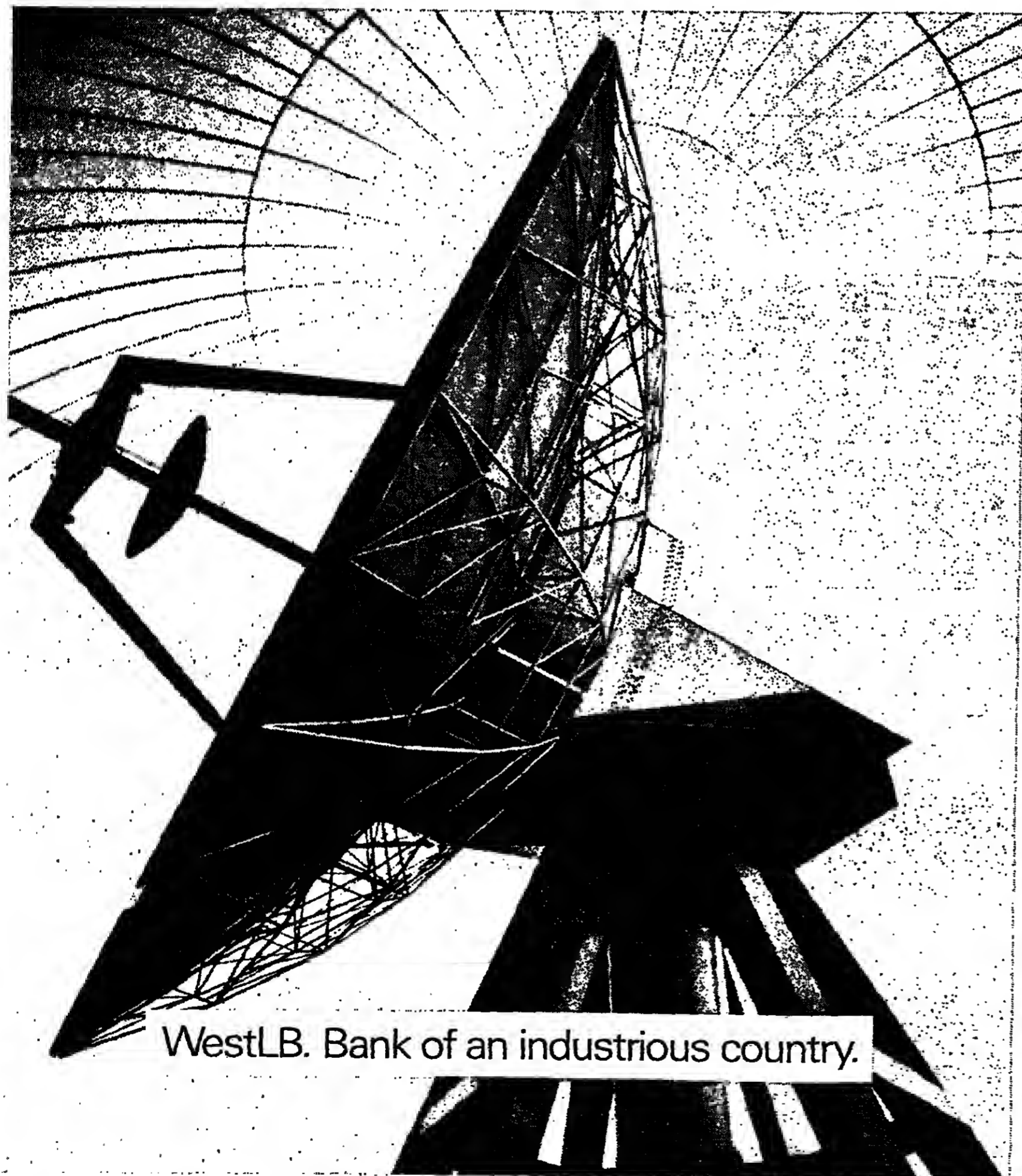
Sr Perez de Cuellar proposed to deal with this and some major security issues in a subsequent statement, an idea which the Turkish Cypriots oppose because of the possibility it opens for later differences of interpretation, the sources said.

President Spyros Kyprianou of Cyprus, at a meeting in January with Mr Raul Rankash, the Turkish Cypriot leader, refused to sign the earlier draft which Mr Rankash had accepted.

The sources, who have seen the reply, said the proportion of the island for the Turkish Cypriots—earlier agreed as "29-plus" per cent—was now proposed to be "of the order of 29 per cent," opening the possibility that it could be less.

They also said that an earlier provision for the Turkish Cypriots to have an effective veto in 10 "major" areas of central government activity had been watered down to the establishment of a working group to decide which of these areas would be deemed "major."

The sources said it was possible that Sr Perez de Cuellar would call for a meeting between him and Mr Rankash to try to resolve the Turkish Cypriot arguments.



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OVERSEAS NEWS

Michael Holman, Africa Editor, examines the career and 21-year incarceration of ANC leader Nelson Mandela

Peace hinges on the legendary hero of black S. Africa

IT WAS in June, 1961, that a black South African attorney, rapidly acquiring a national reputation in his own country but virtually unknown abroad, sent an ultimatum to the architect of apartheid and then Prime Minister, the late Dr Hendrik Verwoerd, demanding a national convention to draw up a non-racial and democratic constitution.

"There are two alternatives before you: either you accede to our demands... and you may still save your country from economic dislocation and ruin and from civil strife and bitterness. Alternatively you may choose to persist with the present policies which are cruel and dishonest... (and) which we shall never cease to fight against."

Dr Verwoerd did not deign to reply.

Many observers now believe that Mr Nelson Mandela, the man who wrote that letter and the imprisoned leader of the banned African National Congress (ANC), is one of the key figures who Dr Verwoerd's successors must release and negotiate with in the turmoil which has gripped South Africa to end.

The 67-year-old Mandela is perhaps the only figure with sufficient authority and influence to provide South Africa with a lull to consider its constitutional future. This is the view of the ANC national executive, who gathered on June 16-20 in the township of Kwa-Zulu to plan the next step in their battle against white rule, the angry youth of riot-prone black townships across the republic, and it seems, several South African Cabinet ministers.

Many observers believe that Mr Mandela's response from his cell at Pollsmoor prison, near Cape Town, will make or break the much-heralded new initiative due to be announced by Mr P. W. Botha, the South African President, in Durban tomorrow night.

The initiative, according to some observers, could include the release of Mr Mandela as well as the introduction of some major reforms which only a few months ago would have seemed unlikely.

However, Mr Steven Solarz, the U.S. Congressman who has led the sanctions campaign in the House of Representatives, has dampened expectations that

the Thursday speech will reveal significant changes.

After a meeting with Mr Botha on Monday, he said: "I am profoundly pessimistic about the prospects for peaceful change in South Africa and my meeting with the state President did not leave me any more optimistic." He said Mr Botha had given no hint of a plan to release Mr Mandela.

Mr Mandela's record during his years of liberty and over the past 21 years of detention, suggest he will vigorously reassert his call for more fundamental changes which should be discussed at a constitutional conference. He will most likely present Mr Botha with a dilemma: the only person who can stop the violence is also committed to Mr Botha's political demise and the overthrow of all the South African President has stood for.

Mr Mandela, like his friend and fellow attorney who is president of the ANC, Mr Oliver Tambo, was born in Umtata in 1918 in South Africa's Transkei—today a homeland—the eldest son of a chief.

It was a sign of his determination and abilities that he overcame the burden of racial

Many observers now believe that the imprisoned leader (right) of the banned African National Congress is one of the key figures Pretoria must release and negotiate with if the turmoil which has gripped South Africa is to end.



discrimination that marked South Africa long before today's ruling National Party took power in 1948. Mr Mandela, after winning an arts degree by correspondence, took a law degree at the University of Witwatersrand in Johannesburg. He served his articles with a firm of white attorneys then set up in practice in Johannesburg with Mr Tambo, defying the racial restrictions of the day.

Mr Mandela joined the ANC (originally launched in 1912) in 1944—it was not banned until 1960—and soon won a reputation as a shrewd tireless organizer and an articulate speaker.

Although still a comparatively young man, Mr Mandela was to play a key role in all the major events that marked the growing confrontation between South Africa's unenfranchised black majority and the National Party

Government formed after 1948. Those events (building on numerous earlier acts of black opposition) are recalled today like a roll call of battle honours: the African mine strike in 1946 (which might have its contemporary parallel if the strike did to start later this month takes place); the national day of protest on June 26 1950; the 1952 "defiance" campaign against unjust laws; and the adoption by a "congress of the people" of the "freedom charter" in June 1955, a document which guides ANC policy to this day.

Its central assertion is a belief in democracy, non-racialism and an equitable society. The charter would have been remarkably in no other country than South Africa, where the Government treated it as revolutionary.

Mr Mandela, speaking about the charter during his last public appearance, on trial for treason in 1964, said: "It is by no means a blueprint for a new society. It calls for redistribution, but not nationalisation of land. It provides for nationalisation of mines, banks and monopoly industry, because big monopolies are owned by one race only, and without such

nationalisation racial domination would be perpetuated despite the spread of political power."

His lengthy speech at the Rivonia treason trial (his third major court appearance) was a remarkable statement in which he traced his growing belief that non-violence would not succeed, and his conversion to the need for an ANC military wing. Umtsho We Sizwe. He helped found this "after a long and anxious assessment" in November 1961.

A month later, Government buildings in Johannesburg, Port Elizabeth and Durban were sabotaged, and the pattern of black resistance to white rule had changed for ever.

Mr Mandela's words at the trial are as prophetic as his letter to Dr Verwoerd. He told the court four forms of violence were possible: the military strategy of the ANC; "sabotage guerrilla warfare, terrorism, and there is open revolution."

In the past year, the ANC leadership has openly declared its shift from guerrilla attacks on strategic targets such as military installations and Government buildings, to "soft"

non-military targets which could include civilians. At the funerals around South Africa today, where the black, green and gold banners of the ANC are unfurled, the youth are calling for a revolution.

The Rivonia trial ended after 11 months and Mr Mandela and his fellow defendants were found guilty of treason. He was sentenced to life imprisonment, down to Cape Town, and then taken by ferry to Robben Island, South Africa's notorious maximum security prison. He was moved to Pollsmoor, where his conditions were made less arduous, in 1982.

Visitors, including his wife Winnie Mandela, a formidable political figure in her own right, say that despite 21 years of incarceration Nelson Mandela's spirits remain high. His mental abilities are as acute as ever, and his confidence in black South Africa's ultimate triumph undiminished.

One recent visitor noted that such was Mr Mandela's authority, it was he rather than the wardens who appeared to be in charge. That may also reflect Pretoria's acknowledgement that the man they hold could be the key to South Africa's future.

Four survivors found in wreckage of Japanese aircraft

BY JUREK MARTIN IN TOKYO

TWO women and two girls appear to be the only survivors of Japan Air Lines flight 123, known in Boeing designs as an R3. In his final radio message, the pilot of flight 123, Mr Masami Takahama, had referred to unspecified problems with the door.

Some aviation experts here doubted that four people sitting at the back of the aircraft could have survived if the rear door had blown out. Much interest, however, was aroused by a report from the Los Angeles Times newspaper quoting the U.S. Federal Aviation Administration that the Boeing 747 had a record of passenger and cargo door problems.

All that did seem self-evident was that something had cut the aircraft's main flight control systems. In his final radio message, Mr Takahama said that aircraft was out of control.

JAL shares took an inevitable beating on the Tokyo stock exchange yesterday, closing down for the maximum permitted limit for a day of ¥1,000 at ¥6,600.

Mr Yasumoto Takagi, the company's chairman, offered his apologies, but said he would not resign. Japanese society expects senior people to take personal responsibility for disasters, regardless of their cause. Mr Takagi faced similar pressure to quit after the last JAL crash at Haneda airport in Tokyo in 1981.

Mr Takagi also denied that JAL maintenance had been in any way negligent. The Japanese Press pointed out that the departure of a JAL aircraft which took Mr Yasuhiro Nakasone, Prime Minister, to Europe last month was delayed because of maintenance problems.

Among the apparent victims of the disaster, were Mr Kazuo Kida, chief economist of Sumitomo Bank, a pop singer whose professional name was Kyo Sakamoto, known 20 years ago for his hit song Sakurayuki, a retired Sumo wrestler and the president of one of the Japanese professional baseball teams.

The family of Mr Kihabé Mathews, the 28-year-old Briton killed in the crash yesterday flew to Japan. Mr Kihabé's girlfriend Masako Nishitani, a 25-year-old travel agent, left Britain on Sunday after a three-week visit to discuss their planned engagement.

The passenger list for flight 123 included 20 other foreigners, among them six Americans, two West Germans, two Italians, two people believed to be Indian, and four believed to be Chinese residents of Hong Kong.

with which he had once enriched the factor—Lavo left his supporters with little sense of direction. Many faction members found it particularly grievous that Mr Komoto, the one-time apothecist of the successful businessman-turned-politician, had to go cap-in-hand to the banks to keep Sanko afloat.

Yet the group survival instinct in Japanese politics—as in society at large—is very strong. There was, therefore, surprisingly little speculation yesterday that the Komoto faction would go so far as to disintegrate, with some MPs becoming independents and some joining other factions.

However, with the LDP gearing itself up for next year's likely general election and a subsequent leadership contest, it can be expected that offers will be made to Mr Komoto's supporters from the main candidates, Mr Nakasone, Mr Shintaro Abe from the Fukuda faction, and Mr Noboru Takeshita and Mr Susumu Nakasone from the Tanaka faction.

Alternative leaders do exist within the Komoto faction ranks though none is considered to be ready to challenge for the highest offices in the land. If Mr Komoto does, in time, step down, his most logical successors would include Mr Toshiki Kaifu, who has served as a Cabinet Minister, and Mr Tokuro Yamashita, who is now the Transport Minister and is thus deeply involved in the Sanko collapse.

There is even occasional talk that Mr Miki himself might return, for that that he is now 73 and nine years out of the Prime Ministership.

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A rescue helicopter lifts up one of the four crash survivors

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Australia sets record trade deficit

By Michael Thompson-Noel in Sydney

AUSTRALIA suffered a record monthly trade deficit of A\$466m (£242m) in July, against a surplus of A\$117m in June, as imports surged by 15 per cent to A\$5.2bn.

There are fears, echoed by the Organisation for Economic Co-operation and Development (OECD) last weekend, that Australia's rapidly rising import bill will fuel a current account deficit and thus endanger the otherwise robust performance of the economy under Mr Bob Hawke's Labor Government.

The Bureau of Statistics said imports of machinery and transport equipment rose by about 30 per cent last month, providing most of the impetus for the overall rise.

Nevertheless, exports last month were 5 per cent lower at A\$2.8bn. There was a net deficit on invisibles of A\$557m, and a record monthly current account deficit of A\$1.3bn. Net export capital inflow, at A\$1.2bn, was A\$818m higher than in June.

Mr Paul Keating, the Treasurer, admitted yesterday that the Government would not proceed with the introduction of a broad-based consumption tax as part of its plans for tax reform. There is also a question mark over plans for a capital gains tax.

Mr Keating said the Government still wanted to cut marginal income tax rates and claimed the tax package, when it emerges, would be far-reaching.

But Mr John Howard, the shadow treasurer, said the Government's climbdown on tax was the biggest victory for Labor's left wing.

Manila draws first tranche of loan

THE PHILIPPINES has drawn the first tranche of \$400m (£200m) of the \$525m new money extended by international banks under a \$10bn commercial debt restructuring programme, reports Samuel Senoren from Manila.

The Philippines is to apply some \$255m of the new money, drawn ahead of schedule on Monday, to clear arrears on interest payments due this month.

Some 56 opposition members of the Philippine Parliament yesterday formally sought to impeach President Marcos charging that he had mismanaged the economy, amassed wealth and abetted the illegal export of capital.

China jail sentence raises foreigners' fears

BY ROBERT THOMSON IN PEKING

IN A diplomatically-sensitive case highlighting the darker side of the Chinese legal system and causing unease among foreign business people here, a U.S. businessman was sentenced yesterday to 18 months jail for allegedly starting a hotel fire in which ten people died.

The businessman, Mr Richard Ondrik, 34, was found guilty of negligence for having fallen asleep last April while smoking in his room at the Swan Hotel in the northern Chinese city of Harbin.

Following the blaze, Mr Ondrik, though not charged with a crime, was confined to the precincts of the city for two and a half months. At the end of June, he was arrested and taken to a detention centre, where, according to his U.S. legal advisers, bright lights were kept on for 24 hours a day.

U.S. envoy's Amman visit boosts hopes of progress

BY TONY WALKER IN AMMAN AND DAVID LENNON IN TEL AVIV

MR RICHARD MURPHY, the U.S. Assistant Secretary of State for Middle East Affairs, arrived in Jordan yesterday for exploratory talks aimed at paving the way for the first ever direct meeting between U.S. officials and a joint Palestinian-Jordanian delegation.

Problems never a list of Palestinian delegates acceptable to Washington now appear to have been resolved.

Mr Shimon Peres, the Israeli Prime Minister, yesterday received a message from Mr George Shultz, the U.S. Secretary of State, assuring him that U.S. officials would meet the Israeli delegates only if it is clear that the meeting will lead to direct negotiations with Israel.

Mr Murphy is understood to be anxious to establish how a meeting would fit into the overall peace process, and that some understanding exists between the two sides about what comes next.

Among names being mentioned as possible Palestinian members of the joint delegation are Mr Hanna Senora, editor of the al-Fajr newspaper in Jerusalem; Mr Nabil Sha'ath, a member of the Palestine National Council, who lives in Cairo; Mr Fayed Abu Rahneh, a lawyer from the Gaza Strip;

and Mr Mohammed Sahih, also a member of the PNC.

Other names on a list of about seven Palestinians put forward by King Hussein of Jordan as possible members of the joint delegation, such as Mr Khaled Hassan, the prominent PLO figure, may fulfil the role of "advisers."

Israel is opposed but resigned to the possibility of a meeting, believing that it will constitute indirect recognition of the Palestine Liberation Organisation. Washington has told the Israelis that this is not the case, but they are not convinced.

The U.S. has reportedly advised Israel not to oppose the meeting because of fears that such opposition would lead Mr Yasser Arafat, the PLO leader, to abandon his pledge, which Washington believes it has obtained, to end terrorism and ultimately to recognise Israel.

This position was delivered by John Whitehead, U.S. deputy assistant secretary of state, during a visit to Israel last week. Washington is seeking from the PLO explicit acceptance of United Nations Security Council resolutions 242 and 338, which call for Israel to withdraw from territories occupied in the 1967 war and for recognition of the right of all states in the region

to live within secure boundaries effectively a recognition of Israel's right to exist.

Mr Yasser Arafat, chairman of the PLO, who arrived in Amman on Monday evening after the Casablanca summit, has not, so far, committed himself to explicit acceptance of resolution 242.

The PLO wants the U.S. to accept it as a negotiating partner in the peace process and also to accept Palestinian rights to self-determination.

King Hussein, whose February 11 accord with Mr Arafat opened the way for renewed peace efforts, has been talking in private about the need for a direct meeting between American and PLO officials, following initial contacts involving the joint delegation, leading to an international conference on the Middle East at which all parties to the dispute would be represented. Israel and the U.S. remain opposed to such a conference because of disquiet about Soviet involvement.

The forthcoming Reagan-Corbush summit to be held in Geneva this November, at which the Middle East is certain to be discussed, is regarded as a key to future American attitudes to an international conference.

Row grows over S. Korean plan for campus curbs

BY STEVEN S. BUTLER IN SEOUL

A POLITICAL showdown is looming in South Korea over the Government's intention to enact a "campus stabilisation law" designed to curb student radicalism.

The bill has provoked the most intense confrontation between the Government and the opposition since the NKDP's strong electoral performance in February. Many are predicting that the opposition will attempt to use obstructionist tactics to defeat the legislation, but the Government party controls a majority of seats in the Assembly.

The law would establish an extra-judicial panel empowered to send leftist students through "rehabilitation" programmes for up to six months. Students who refuse to co-operate might be referred to the courts.

The Government says the law is designed to give it more flexibility in dealing with leftistism on the campuses, and that it will help keep students from going abroad to join the North Korean cause.

The opposition, however, says the extra-judicial procedure is an infringement of constitutional rights and will lead to abuse. Leading dissidents, Mr Kim Dae-Jung and Mr Kim Young-Sam, yesterday issued a joint statement denouncing the Bill, claiming that it would "bring about an inevitable confrontation between the people and the power holders and plunge the nation into a catastrophic crisis."

The Government has already locked and sealed off University campuses in Seoul in order to prevent students from organising protests against the law. Opposition assemblymen say they are considering staging a filibuster, or a sit-in in the National Assembly to prevent the government party from taking a vote.

The U.S. businessman was formally charged on July 1, but his lawyers were not told until two days later, and the trial began on July 11, giving them only eight days to prepare a defence. Defendants in China do not enter a plea of guilty or not guilty, and the evidence from defence and prosecution is debated by the sitting members of the people's court.

Mr Ondrik's U.S. lawyer was not permitted to represent him before the court's three members. His Chinese legal representative presented evidence to

the court that the businessman had not smoked in his room and claimed the fire could have been caused by an electrical fault.

Other evidence showed much confusion on the night of the blaze. A hotel employee told the court that a fire extinguisher he grabbed did not work, and the hotel was said to have no emergency exits.

The court also sentenced the hotel's acting chief security officer, Jiang Guoyuan, 56, to three years imprisonment for having deserted his post to spend the evening in the hotel ballroom on the night of the fire.

Mr Ondrik now has ten days to appeal against the sentence. According to the Chinese news agency, Xinhua, he indicated after yesterday's decision that he would consult his legal advisers before taking further action.

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London liable for 57 per cent of JAL claims

By Eric Short

THE LONDON insurance market will be liable for 57 per cent of the total claims made as a result of the Japan Air Lines 747 crash and the accident is likely to cause aviation underwriters to reconsider their rates on what was regarded as the safest airliner in operation.

JAL's primary insurer is Tokyo Marine and Fire Insurance, but 57 per cent of the risk was reinsured in the London market with Lloyd's and companies.

The aircraft itself was insured for \$35m (£25m), but the ultimate liability for passengers is unknown and virtually unlimited. Under the Warsaw convention all passengers on international flights are insured for a standard \$75,000 of passenger liability—paid on death or other accident to the passengers.

However, on internal flights, passenger liability is controlled by local legislation and in Japan there is no limit to such liability. Crash victims or their relatives and dependants may sue the airline, and possibly the manufacturers, in the courts for settlements above the standard.

It will be several years before the claims are ultimately settled and at the moment Lloyd's is not prepared even to hazard a guess at the cost. Claims from the South Korean 747 disaster two years ago are far from being settled and preliminary guesses put the insurance costs in the region of \$300m.

A statement from the chairman of Lloyd's Aviation Underwriters' Association when Lloyd's global results are announced next month should indicate underwriters' thinking on rates for 747 jetliner insurance. The JAL crash follows the crash of an Air India 747 off the coast of Ireland in June.

Komoto resignation casts doubt over future of his faction

BY JUREK MARTIN IN TOKYO

MR TOSHIO KOMOTO, the former head of Sanko Steamship, yesterday made clear he intended to try to stay on as leader of the political faction he commands in the Japanese Liberal Democratic Party.

But the future of his faction seemed in doubt yesterday following the decision of Mr Yasuhiro Nakasone, the Prime Minister, to accept Mr Komoto's resignation from the Cabinet, in which he had served as State Minister for external economic relations.

The Komoto faction has 35 Diet members and is the smallest of the five cohesive groups inside the LDP. Under its previous leader, the former Prime Minister Mr Takeo Miki, it had the reputation of an independent floating faction that rather revelled in Mr Miki's image as a "Mr Clean" who shunned money politics.

Mr Komoto has changed the faction's philosophy in several ways. He had brought to it both money and his own ambition to be Prime Minister (he finished second to Mr Nakasone in the 1982 leadership contest).

He had also imparted his own neo-Keynesian economic views, which do not correspond to the mainstream of conservative LDP thinking.

This combination of economic liberalism and an independent tradition had even made the Komoto faction an intermittently attractive proposition to the opposition centre-left parties in their dreams and schemes of an anti-LDP coalition.

But his defeat by Mr Nakasone in 1982 and the problems of Sanko Steamship, which began to surface in the follow-



Komoto: determined to remain faction leader

NEW machinery orders from the Japanese private sector, a leading indicator of private capital investment in the coming six to nine months, rose 4.1 per cent in June from the previous month to a seasonally-adjusted ¥544bn, Kyodo reports from Tokyo.

But the growth appears to be peaking out because May's advance reflects a rise in orders for aircraft engines from the Defense Agency.

ing year, pulled the rug from under Mr Komoto's ambition. The faction lost seats in the 1983 general election and last year Mr Komoto suffered the humiliation of being unable to raise the signatures needed of 50 MPs in order again to run against Mr Nakasone.

His decline—and the progressive drying up of the funds

Yeutter warns Japan against export curbs

The surge in imports, much of which continue to be sold at dumped or subsidised prices, has moved into a weak domestic market, and has exerted continued pressure on prices. It

Channel link may get team advice

THE GOVERNMENT has appointed Schroders, the merchant bank, as its financial adviser in awarding a mandate for the construction and operation of a fixed link across the Channel.

Unexpectedly, the Department of Transport - which has overall responsibility for the fixed link project - has also allowed for the possibility that Chase Manhattan Limited, the merchant bank subsidiary of the U.S. commercial bank, may play a subordinate role to Schroders.

Chase may be asked to assist Schroders in certain aspects of the financing assessments and in particular on the prospects of international marketing of project financing proposals. Schroders, which has already enjoyed a significant share of the advisory work provided by the City of London for the Government's privatisation programme, is believed to have been a strong force of candidates for the main advisory job. Hill Samuel, N. M. Rothschild and S. G. Warburg were on the shortlist of four merchant banks interviewed.

Chase Manhattan was one of two U.S. banks which could play an advisory role. It made clear it would be willing to accept a subordinate position to a UK adviser. But the scope of Chase's project finance experience, and its potential usefulness as a consultant on international financial proposals, also appear to have influenced government thinking.

Bids for the mandate have been invited for submission before October 31. The Government has indicated that it would like to reach a decision about the project by January, 1986 at the latest. Full assessment of the various schemes now under discussion seems likely to be a complex task.

Channel Tunnel Group, Euro-tunnel and Eurobridge, have announced plans for a tunnel, a combined bridge/tunnel and a suspension bridge, respectively. The Department of Transport, with the co-operation of several other Whitehall departments as well as the Treasury, expects to have to evaluate the proposed schemes under at least twenty major assessment headings. Teams of technical consultants are due to be announced soon.

BRITISH TELECOM's flotation as a public company attracted one million people who had never bought shares before, the Stock Exchange Quarterly says. The publication's latest issue says last year's Telecom sale boosted the number of private shareholders in Britain from around 1.7 to around 2.7m.

BRITISH GAS Corporation has appointed Hoare Govett, the stockbrokers, as adviser for its forthcoming privatisation. Next year's sale of 100 per cent of the corporation could raise up to £2bn, twice the sum which resulted from the recent sale of less than half of British Telecom.

PIRATE RADIO stations are being closely watched by a government-chartered ship which has moored in the Thames Estuary. A Department of Trade spokesman said transmissions from floating radio stations such as Radio Caroline and Laser 555 were potentially dangerous because they could jam emergency radio calls.

BRITAIN and Albania are having confidential talks on resuming diplomatic ties after a 40-year break, according to a letter from Mrs Margaret Thatcher, the Prime Minister, to a Labour Member of Parliament.

BUILDING SOCIETIES recorded a better than 50 per cent rise in deposits to £560m for the month of July, according to Building Societies Association statistics. The increase suggests a cut in mortgage interest rates of at least one percentage point from September 1.

DENTISTS should advertise their services, the head of the Office of Fair Trading (OFT), the body which monitors professional practices, said yesterday. Sir Gordon Borrie, Director-General of Fair Trading, said dentists should lift their own ban on advertising so that the public knew the prices and range of services available.

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Dismissal threat may escalate railway dispute

BY BRIAN GROOM, LABOUR STAFF

THE THREAT of widespread rail disruption in Britain came closer last night after the British Railways Board threatened to sack 270 guards involved in the dispute over plans for driver-only trains.

The board said 32 guards at Llanelli and 58 at Margam in Wales, together with 180 at Glasgow Central, risked dismissal unless they promised to return to work by mid night on Friday and followed management instructions.

Mr Jimmy Knapp, general secretary of the National Union of Railwaymen (NUR) said: "This is a blatant attempt to intimidate. All aggressive action by British Rail brings the chance of a national strike nearer."

The NUR plans to hold a national ballot of more than 10,000 guards on August 29 on strike action over BR's implementation of driver-only working without agreement.

Mr Knapp would not be drawn on what might happen if sackings went ahead before the ballot. He said it would make an already volatile situation totally unpredictable.

The board's threat forces the pace of the dispute. The management, the union and the Government all expect this to turn into a long-awaited confrontation over productivity on the railways.

There has been mounting disruption around the country since BR resumed and began extending trials of driver-only operation from July 8. Mr John Paletta, managing director for personnel, said the board hoped not to have to take similar action against other railmen, but would do so if necessary.

Sackings in this situation would

be unprecedented. The board threatened to dismiss workers during the last major bout of industrial action in 1982, but the threat was never implemented.

Mr Paletta said the board had taken its step after confirmation that the NUR executive had issued instructions that guards on strike were to be paid £13.70 a day from union funds.

"In effect, the NUR is paying these guards not to come to work and this situation cannot be allowed to continue," he said. The NUR regards the guards as locked out because BR will not allow them to work normally under national agreements.

The union is opposed to driver-only trains on safety grounds, but it is also opposed to the job losses that the plans entail.

Mr Paletta said the unusual situation in which guards were receiving union benefit while not on official strike confused the issue of whether the board could seek an injunction against their action.

BR said the guards at Margam had been on strike since July 15 and those at Llanelli since July 22 in sympathy with drivers sent home without pay for refusing to begin training for driver-only working.

Guards at Glasgow Central have been out since August 2 because some passenger trains converted for even-numbered days only use have been brought in. About between 400 and 500 employees are now involved in industrial action as the dispute has spread to other parts of the country.

Manufacturing output picks up slowly

BY PHILIP STEPHENS

BRITAIN'S manufacturing output showed only sluggish growth during the second quarter of this year, although overall industrial production benefited from a rebound in activity after the end of the miners' strike in March.

Figures released yesterday by the Central Statistical Office show that manufacturing industry increased its output by a 1/4 per cent in the three months to June, after a rise of 1 per cent in the first quarter of the year.

The data presents a slightly more optimistic picture than that in earlier months because of substantial revisions to past figures and because of a relatively strong rise in output during June.

The underlying trend, however, suggests that the annual growth rate in manufacturing production has slowed to under 2 1/2 per cent. This is likely to reinforce calls from the Confederation of British Industry (CBI) for more aggressive action by the Government to bring down

interest rates and to accept a lower exchange rate for sterling against European currencies.

The latest CBI industrial trends survey indicated that sterling's sharp appreciation since the beginning of this year would seriously damage export prospects for British manufacturing companies.

Yesterday's figures show that the strongest growth between the latest two quarters has been in metals production, with steelmaking boosted by the end of the coal strike.

There was also above-average growth in the minerals, chemical and engineering industries, but production of textiles and clothing was flat and there was a sharp drop in the output of the food, drink and tobacco industries.

Industrial production as a whole grew by around 2 per cent between the two quarters, with the bounce-back in coal output after the settlement of the miners' dispute more than offsetting a sharp drop in North Sea oil output during June.

Unions plan boost to public investment

BY OUR INDUSTRIAL STAFF

THE TRADES UNION CONGRESS (TUC) has announced its programme to reduce unemployment and boost Britain's economy.

Mr Norman Willis, the TUC General Secretary, said unions were putting their 1985 economic review forward as a "charter for change". The document proposes £300m public investment in areas such as housing, transport and energy, to be spent over five years, with a £50m boost to current spending recommended for the coming year.

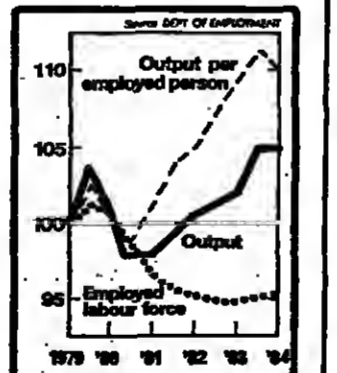
The TUC argues against tax cuts, which it says only benefit those who are already wealthy.

His review says there is a "huge backlog of work" in those areas which it nominates for investment. As a growing number of other groups have come to realise, these proposals would create jobs, use relatively few imports and will actually save resources in the longer term," Mr Willis said.

He said there was a danger of slipping back to the idea that nothing could be done about the present situation in Britain, which could become like a Third World country.

"It cannot be true that nothing can be done. We are putting ourselves firmly on the side of expansion and serious negotiation of things that can be done, and pushing forward," said Mr Willis. He said the economic policies of the present Government had knocked the heart out of manufacturing industry and had cut down on investment, research, development and training. He accused the Government of having held back long-overdue public investment in infrastructure and been hostile towards public services and the welfare state.

The TUC put forward that Britain's economic problem was not high wages, but low investment and low productivity.



Its economic blue print proposals include:

- Creation of a national investment bank to invest money directly in production.
- Shifting resources from defence to industrial research and development.
- Extending the youth training scheme.
- Restoring exchange controls and repatriating funds invested overseas since 1979.

"The TUC believes the British people deserve better than the 'new defeatism' of this Government. Along with a growing number of people, the TUC rejects the Government's reasons for doing nothing about unemployment," Mr Willis said.

On public ownership, the TUC is carrying out a consultative exercise with unions on the role and structure of public enterprise.

Mr Willis said the TUC had never excluded the issues of pay from its economic thinking. Clearly the bargaining function of trade unions would always continue.

The TUC meets for its annual conference in September.

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UK NEWS

Standard Chartered move to boost capital

BY DAVID LASCELLES, BANKING CORRESPONDENT

STANDARD CHARTERED yesterday became the first UK bank to try to boost its capital by offering to swap notes that do not qualify as primary capital under the Bank of England's new rules for new notes that do.

The £300m exchange raised expectations that Barclays and National Westminster, Britain's two largest banks which between them have £1.1bn of non-qualifying notes outstanding, will follow suit.

Standard Chartered's manoeuvre, for which the securities house of Credit Suisse First Boston is acting as adviser, follows clarification by the Bank of England about the sta-

tus of perpetual floating rate notes on bank balance sheets.

Last year, Standard, Barclays and NatWest made large issues of these notes, hoping to be able to include them in their primary capital base, which is used by Britain's central bank as a measure of balance sheet strength. They argued that the notes were akin to equity since they never had to be repaid and had interest payments linked to dividend payments.

The Bank of England disallowed them, however, because the notes might have to be repaid in some cases where a bank got into trouble.

In May Lloyd's Bank found a way

round this obstacle by launching an issue that was convertible into preference stock if a bank incurred large losses. This increased the risk for the investor, but ensured that the money would stay with the issuing bank.

After the central bank allowed the Lloyd's issue, all the other leading UK banks made large issues of their own.

Standard Chartered is now attempting to call in its pre-Lloyd's issue and exchange it for a new issue conforming to the Bank's rules. Investors are being offered £70 for every £100 of notes tendered as an inducement to take the new notes

which are virtually identical to the old issue, except for the provision that they should be convertible into preference stock. The terms are the same.

The exercise, which has the Bank of England's approval, aroused considerable interest in the European markets yesterday.

The price of Barclays and NatWest's non-qualifying issues rose in anticipation of a similar exercise. Both banks said, however, that while they keep their capital-raising under constant review, they had no immediate plans to do so. Mr Charles Green, general manager of NatWest's financial control di-

vision, said his bank's capital position was satisfactory.

Standard is calling a meeting of note holders on September 4 to approve the exchange. The bank, however, will proceed regardless so long as at least \$100m is tendered. The total cost of the exercise will be \$2.4m.

Including other perpetual issues made since May, the exchange will give Standard Chartered £3.25bn (\$3.5bn) of primary capital. This helped boost Standard's shares on the London Stock Exchange, where they closed at 460p, up 15p.

Lex, Page 12

U.S. judge backs Laker out-of-court settlement

BY DUNCAN CAMPBELL-SMITH

JUDGE HAROLD GREENE, who has presided over the Laker Airways anti-trust suit in Washington since November, 1983, has spoken out in favour of the out-of-court settlement reached by the suit last month - and has warned that its rejection by the English courts could mean it will go forward to inevitable trial.

Judgment is expected this morning from Vice-Chancellor Sir Nicholas Browne-Wilkinson, after a two-day closed hearing in the High Court in London of an appeal by Sir Freddie Laker against the settlement, agreed by British Airways (BA) and 11 other defendants.

Mr John Beveridge QC, counsel for Sir Freddie, has argued that a \$48m settlement is an inadequate outcome to a civil suit seeking damages of \$1.1bn. The action was brought in 1982 by Mr Christopher Morris, the liquidator of Laker Airways, on behalf of Laker's creditors, but Mr Beveridge has appealed against High Court approval for the settlement on the grounds that Sir Freddie could expect substantial compensation himself if the suit went to go full trial.

Judge Greene, speaking on the record at a conference in his Washington chambers on Monday, left no doubt of his views of the appeal. "It

is my view that the settlement is appropriate, that it is the best that can be accomplished given the many parties and the many interests that are involved." He added that he saw "no basis whatever for believing that further negotiations for Sir Freddie will lead anywhere."

He was speaking at a conference of English and American lawyers convened to discuss fresh difficulties which have arisen since the settlement was struck, largely as a result of the legal battle shifting onto new ground in the English courts.

Two U.S. firms - Beckman & Kistner and Metzger, Shadyac & Schwarz - were together offered

\$12.5m on July 12, in settlement of their fees as advisers to Mr Morris. It was agreed then that \$8m should be paid on July 20, but the defendants in the case remain unwilling to hand over any money until a final settlement is secured, involving full approval from the English and Jersey courts.

Monday's meeting was a sequel to a telephone conference held between the various parties and Judge Greene on July 28.

It has now been agreed that the \$12.5m will be held by BA on behalf of the lawyers and handed over when the settlement is complete. Judge Greene also commented on

Monday about reports that Mr Robert Beckman, U.S. counsel to Sir Freddie, was now advising Sir Freddie. The judge said "it raises on its face a problem of conflicts of interest," given the "obvious" fact that the interests of Mr Morris and the liquidator were now "totally at odds."

"I find it difficult to understand how Mr Beckman, consistent with the disciplinary rules, can represent both the liquidator and Sir Freddie," said Judge Greene. "Whether anything further needs to be done is something to which I and everybody else will have to give further thought."

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NOTICE IS HEREBY GIVEN that, pursuant to the provisions of the Trust Deed dated January 31, 1985, \$21,000,000 principal amount of the above described Bonds has been selected for redemption on September 13, 1985 at a redemption price of 101 1/2% of the principal amount thereof, together with accrued interest to said date, as follows:

BONDS OF U.S. \$5,000 EACH

690	1365	2017	2623	3188	3777	4427	5131	5715	6344	6938	7533	8172	8752	9320	9971	10644	11169	11698	12295	12904	13574	14308	14961	15628	16298	16934	17616	18247	18854
701	1372	2023	2629	3194	3783	4433	5137	5721	6350	6944	7539	8178	8758	9326	9977	10650	11175	11704	12291	12900	13570	14304	14967	15634	16304	16940	17622	18253	18860
712	1383	2034	2640	3205	3794	4444	5148	5732	6361	6955	7550	8189	8769	9337	9988	10661	11186	11715	12298	12909	13581	14315	14978	15645	16315	16951	17633	18264	18871
723	1394	2045	2651	3216	3805	4455	5159	5743	6372	6966	7561	8200	8780	9348	9999	10672	11197	11726	12302	12911	13592	14326	14989	15656	16326	16962	17644	18275	18882
734	1405	2056	2662	3227	3816	4466	5170	5754	6383	6977	7572	8211	8791	9359	10010	10683	11208	11737	12313	12922	13603	14337	14999	15666	16336	16972	17654	18285	18892
745	1416	2067	2673	3238	3827	4477	5181	5765	6394	6988	7583	8222	8802	9370	10021	10694	11219	11748	12324	12933	13614	14348	15010	15677	16347	16983	17665	18296	18903
756	1427	2078	2684	3249	3838	4488	5192	5776	6405	6999	7594	8233	8813	9381	10032	10705	11230	11759	12335	12944	13625	14359	15021	15688	16358	16994	17676	18307	18914
767	1438	2089	2695	3260	3849	4499	5203	5787	6416	7010	7605	8244	8824	9392	10043	10716	11241	11770	12346	12955	13636	14370	15032	15699	16369	17005	17687	18318	18925
778	1449	2100	2706	3271	3860	4510	5214	5798	6427	7021	7616	8255	8835	9403	10054	10727	11252	11781	12357	12966	13647	14381	15043	15710	16380	17016	17698	18329	18936
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801	1482	2133	2739	3304	3893	4543	5247	5831	6460	7054	7649	8288	8868	9436	10087	10760	11285	11814	12390	12999	13680	14414	15076	15743	16413	17049	17731	18362	18969
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New Issue

July 1985

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JULY 1985

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UK NEWS

Andrew Fisher looks at the price tag placed on a state industry chief

Ring of steel on cash register



Mr Ian MacGregor

TWO KEY QUESTIONS arise from the decision to pay £275,000 to a New York merchant bank for progress made by the state-owned British Steel Corporation (BSC) during Mr Ian MacGregor's chairmanship. Mr MacGregor was chairman of BSC from July 1980 until September 1983, when he left to take up what has turned out to be the far more controversial job of running the National Coal Board. He has recently come under criticism from ministers in the Conservative Government for his handling of the miners' strike of 1984-85.

The first question about Mr MacGregor's price tag concerns whether his BSC performance warrants such a huge sum. Second, should this amount of money be paid for the services of any one man, whatever his achievements?

Under the agreement between the UK government and Lazard Freres, which employed Mr MacGregor, also a partner in the bank, £275,000 was paid initially to Lazard for releasing him to head BSC. The corporation had experienced difficulty in finding someone to take on the awesome task of reversing the steel group's fortunes.

An agreement was drawn up which provided for a final payment up to a maximum of £1.5m - £700,000 on the basis of BSC's results for the financial year to March 31, 1984, and £450,000 for the following year.

A Review Committee was set up to assess justification of the payments.

After four years, 19 meetings, and the gathering of a mass of statistics, the committee settled on the figure announced yesterday by the Trade and Industry Department. It is three-quarters of the maximum, which takes account of the fact that BSC is still a charge on the taxpayer, though a much reduced one.

Mr John Gardiner, chairman of the committee, is a firm believer in paying for performance. Chief executive of the Laird engineering group, he is also on the board of British Shipbuilders, whose chairman Mr Graham Day receives a performance bonus, though based on a much simpler formula.

"If you import management talent," Mr Gardiner said, "you must expect to pay whatever rate they can attract in their own country. It's a market place." In assessing Mr MacGregor's value to BSC and the savings to the British taxpayer, a long-term view was taken.

The size of the payment determined by the committee - a small fortune by UK standards, but less startling by those of the U.S. - reflected BSC's success in boosting productivity (including massive cuts in the workforce), slashing costs such as labour and energy, reducing the burden on the taxpayer and "maintaining its market position."

The Government asked the committee to consider profit and loss targets, cost reductions, progress on privatisation and to assess BSC's "continuing health and strength."

In productivity terms, annual output per worker at BSC has soared since 1980 from 84 tonnes to 204 tonnes in the first five months of this year. Thus the UK industry has equalled its counterpart in West Germany, which is already efficient enough to have achieved 218 tonnes in 1980 and is now at 267 tonnes.

This, noted Mr Gardiner, reflected a tremendous effort by BSC's management and workforce. But he added: "They haven't won the war doing this, they're getting into the fight." The industry needed to keep up the pace of growth to remain competitive, he said.

It was actually Mr MacGregor's predecessor at BSC, Sir Charles Villiers, who devised the plans to cut capacity which have been implemented in the last few years. Production has come down from 17.3m tonnes in the 1978-79 financial year to 13m tonnes, with manpower now 64,500 compared to 168,000, six years ago.

BSC costs the taxpayer around £1bn less than in 1978-79, which the committee took as its base year to eliminate distortions caused by the later steel strike. This drop was a result of Mr MacGregor's chairmanship, Mr Gardiner said.

Its yearly cash requirement in the late 1970s was nearly £1.5bn a year, if the figures are adjusted to take account of inflation, compared to around £240m now. The productivity boost alone accounts for most of this drop, with energy savings worth up to £150m. In making its assessment, the committee ex-

cluded the effect of the coal strike on last year's BSC results.

While no major parts of BSC have been privatised, around 11 per cent of its assets and 14 per cent of the labour force have moved to the private sector by the end of last year. The latest Phoenix 2 deal on engineering deals with GKN brings this up to 27 per cent on both counts.

BSC is now making a small profit for the first time in many years, but the world steel market remains harshly competitive. Having probed into the workings and finances of BSC with his four partners on the committee, Mr Gardiner said of the company: "It's been very long and time-consuming, and would be difficult to repeat, but it's been very interesting to see people pull an organisation together to compete in world markets."

NatWest sells 49.8% of Diners Club

By Margaret Hughes

NATIONAL WESTMINSTER Bank has sold its 49.8 per cent stake in Diners Club UK to its former partner in the card company, Citicorp. This means that the UK travel and entertainment or charge card company is now wholly owned by Citicorp.

The price paid by Citicorp has not been disclosed but is believed to have been between £4m and £4.5m.

The long-awaited purchase of the NatWest stake by Citicorp is part of the U.S. bank's policy of consolidating ownership of the card company worldwide. Citicorp, acquired the Diners Club International parent company some five years ago from Continental Insurance of Chicago for an estimated \$25m.

It has recently bought out the franchises through which the card is sold in other European countries. This leaves Italy, Spain, Switzerland/Austria and the Nordic countries as the only European markets where it does not now wholly own the Diners Club operation.

Earlier this month Citicorp also announced moves to extend its presence in the travel industry with the launch of a worldwide travel voucher scheme in partnership with Diners Club and the Universal Federation of Travel Agents' Associations (UFTAA).

NatWest said that the sale was part of its "strategic planning" for the future in which the Diners Club card "does not fit in." NatWest would not confirm that it had any plans to offer an alternative charge card.

It is already an issuer of Access credit cards. Since Access is a member of Mastercard, an extension of this facility to a Mastercard Gold Card, which operates as a charge card, would be an obvious move.

NatWest emphasised that its existing Diners Club cardholders would not be adversely affected by the sale. Under the terms of the agreement with Citicorp, NatWest will continue to cash cheques backed by Diners Club cards until March 31, 1987.

There are some 800,000 UK Diners Club cardholders, but NatWest would not disclose what proportion were its customers.

London cable plan endorsed

By Guy de Jonquieres

A £30m plan to provide a modern business communications and entertainment cable television network in London's docklands development area has been approved in principle by the Cable Authority.

The plan is supported by a consortium including Mercury Communications and a subsidiary of United Telecommunications of the U.S.

East London Connections, the consortium which applied for the franchise, plans to lay two sets of cables. One will carry entertainment television channels and the other voice and data communications.

It aims to offer customers connections to the UK telecommunications networks of British Telecom and Mercury as well as overseas links. Mercury already has an international satellite ground station in the docklands area.

Travel trade earns black mark for misleading advertisements

BY ARTHUR SANDLES

TRAVEL AND holiday industries are again one of the biggest sources of complaints to the Advertising Standards Authority (ASA). Travel companies and airlines are accused of making false claims, promoting misleading prices and offering facilities which travellers subsequently find not to exist.

The latest ASA list of complaints contains 14 cases, most of which were upheld. They included a hotel at Ealing about 7 miles from central London which claimed that it was "only minutes from London's West End," the tour company whose £99 tour proved to be £139, and another whose self-catering apartments had no cooking ovens.

It adds that "while passengers

are sometimes unable to take advantage of an advertised fare, not because a flight is fully booked but because the fare applies only in exceptional circumstances.

One advertiser suggested that "America is only £119.50 away." It was then found that no such fare existed and that £119.50 was the one way equivalent of an Apex return fare.

An airline tour suggested that its new Business Class had much improved seating is criticised for not mentioning that this seating was not on all its flights. "Rail travellers expecting, to, relax, in air-conditioned comfort and to enjoy restaurant car facilities also feel let

down - understandably - when they find they can't do either on their particular route," says the ASA.

It castigates tour operators for not telling potential customers that facilities mentioned in brochures no longer exist.

As a result of recent complaints the ASA recommends that British Rail withdraws its poster advertising campaign which boasts of train time-saving. In printing a poster of black dots (for trains on time) and red dots (for trains late) British Rail had put the red dots closer together making them take up a smaller space and had based its claim on statistics which the ASA felt were "inappropriate."

Government clamp on local council's industry

BY BRIAN GROOM

THE GOVERNMENT has refused to consider allowing local authorities to compete for work in the private sector, even though it is insisting that councils offer many of their own contracts to competitive tender from private contractors.

The issue has arisen in response to a query from a Labour-controlled council in Staffordshire which was considering using its successful direct labour organisation to offer a housing repair service for private householders.

The Newcastle-under-Lyme borough council said this would allow local ratepayers to have repairs done at a competitive price, and would make a profit which could be transferred to the credit of the general rate fund.

Knowing that it was traditionally unlawful for local councils to compete for work in the private sector, the council wrote to the Department of Environment to ask if the position had changed now that council contracts for housing repairs were open to competitive tender.

The department replied that under the Local Authorities Goods and Services Act 1970 local authorities could co-operate with each other and certain other "public bodies" on purchasing and services, but could not supply goods or services to any other organisation or individual. The Government had no plans to designate further "public bodies."

It added a strong statement of policy, saying that ministers believed any extension of the powers of local authorities to supply services would not be in the public interest.

The department added: "To do so would encourage local authorities to expand rather than reduce the scale of their activities and would mean loss of opportunities for the private sector at a time when the Government wishes to stimulate their involvement in the public sector."

Mr David Hill, the Newcastle-under-Lyme treasurer, has written back to the department, saying he was under the impression that it was government policy to encourage efficiency through the spur of market forces and to encourage councils to reduce rate-borne expenditure.

"There you have an authority which is anxious to assist the ratepayers of the area by providing a profitable service at competitive charges in order to reduce the rates," he wrote.

"I should have thought that ministers would have applauded our enterprise. However, I note that ministers are only concerned to protect the private sector from the consequences of fair competition from efficient public bodies. I had not realised that the policy of ministers was such one-sided humbug."

Coal board audit goes to Ernst & Whinney

BY BARRY RILEY

THE ACCOUNTING firm Ernst & Whinney has won a contest between a short list of four firms to become new auditors of the National Coal Board (NCB).

It succeeds KMG Thomson McLintock, which has held the position since nationalisation in 1948. This firm was also shortlisted for the audit along with Price Waterhouse and Peat Marwick.

Oral presentations by the four firms three weeks ago to a panel of representatives of the NCB, the Treasury and the Department of Energy, resulted in a unanimous decision in favour of Ernst & Whinney.

Ernst & Whinney is thought to have tendered £300,000 for the work, against £297,000 charged by KMG Thomson McLintock in respect of the 1984-85 accounts - al-

though one or two subsidiaries have been excluded from the new remit.

The NCB accounts have aroused controversy in the past year or two, and the assessment of profits or losses in different parts of the group was rendered highly political by the miners' strike.

KMG Thomson McLintock said in last month's auditors' report that the opinion in the 1984-85 pre-tax losses of £2.2m was affected by uncertainty about claims for surface damage, by difficulty in assessing the level of strike provisions, and by uncertainty about fixed asset values.

The decision to switch auditors does not relate to the recent accounts but to a longer-term Government policy to put nationalised industry audits out to competitive tender from time to time.

Soup in cartons rivals tin

By Tony Jackson

BOWATER, the UK packaging company, has produced the first real rival to the tin of soup - soup in a carton. Produced in conjunction with the Nestle subsidiary Crosse & Blackwell, the new soups look likely to be one of the most interesting innovations in the packaging industry for years.

The idea is not wholly new. The world's leading carton maker, Swedish-based Tetrapak, packs Campbell's tomato soup in cartons in Italy, and also has some souptype products in Japan. These are basically liquid soups. The breakthrough from Bowater and Nestlé is to get soup with bits in it - fish, meat, vegetables - into an aseptic carton with a one-year shelf life.

In recent years, the carton has made serious inroads into the glass bottle, in markets such as milk, orange juice and even wine. With this development, it threatens to do the same to the tin can.

Despite its century of commercial development, the tin can has one serious drawback. When the can is filled and sealed, it is not yet aseptic. To kill off all the bacteria, the contents have to be thoroughly heated. In the case of a big catering order of baked beans, for instance, it takes many hours to cook before the last bean in the middle has been sterilised. By that time, of course, the beans on the outside have been drastically overcooked.

With aseptic packaging, it is a different story. The food can be spread out thinly and flash-cooked before being put into the carton. The new Crosse & Blackwell soups, for instance, are cooked for just 90 seconds, compared with the hour or so needed for the same amount of soup in a can. The result, the makers claim, is that the soups can contain delicate ingredients - cream, wine, herbs - which would be ruined by the canning method.

This does not mean that the way to cartoned food is yet open. The problem tends to be that if big chunks of meat or vegetables are cooked for long enough to be sterilised in the middle, the outside is overcooked.

The maximum size of particle which can be handled by the Bowater method is a fairly meagre 8mm, and it will evidently be some time before that will be extended.

However, the competition are fully alive to the threat. Britain's biggest can maker, Metal Box, says sagely: "It is a development that we will be watching with great interest."

How savings can be fuelled by investment

Emstar will take on anyone with an annual energy bill of at least \$40,000 — such as a 120-bedroom hotel. At the upper end it is now negotiating with several breweries with annual energy bills of \$1m which involve front-end investment of around £750,000.

District heating apart, it is not surprising that Shell and BP should be the first UK companies to enter the market. Considerable financial resources are required. Up-front investments equivalent to the client's annual fuel bill are not uncommon and Tinson concedes that this year, despite its district heating income, "Emstas" will show quite a substantial and significant" deficit. However, he points out that after

Paradoxically, Richard Tinson wishes it would take longer, because that would imply an even faster rate of growth.

Peter Walker, the Secretary of State for Energy argues that the UK could save £7bn on its annual fuel bills, largely

However, BP had the successful experience of its French energy management venture, BP Energie, to give it the confidence not to disguise its oily origins.

A more substantive differ-

But both Emstar and BP Energy agree that no amount of ministerial door knocking will turn the UK into an easy market for third party finance. The hard sell is only just beginning.

WORK is almost complete on the refurbishment of one of London's best known small luxury hotels, Dukes in St James's Place. The two top floors have been demolished and rebuilt to provide bigger bedrooms and a suite, which

The changes are adding to the burden of Official Airline Guide, the Dun and Bradstreet subsidiary, which dominates the air-information business. As the changes speed up so the number

are surcharges for long non-stop flights. Pacific Western's UK office is at 73 High Street, Ewell, Surrey KT17 1RX.

Arthur Sandle

The changes are adding to the burden of Official Airline Guide, the Dun and Bradstreet subsidiary, which dominates the air-information business. As the changes speed up so the number

Arthur Sandle

According to the provisions of the contract, copies of which are available on request, the following information is provided:

TECHNOLOGY

Tidal power begins to flow

Alistair Guild looks at a simple means of harnessing tidal energy which is about to be tested on a Scottish island

THE BLEAK and barren Hebridean Islands off the west coast of Scotland may seem a million miles away from the lush tropical rivers of Asia, Africa and South America. However, a tidal power device, due to start trials at Spanish on North Uist next month, could have considerable potential for developing countries.

The 35-metre wide barrage device will be positioned across the entrance to Loch Howran where it empties into the sea, and will provide power for a nearby hospital. Rated at 270 kW, it has been designed to capture the energy in the three-metre head of water which builds up across the Spanish narrows.

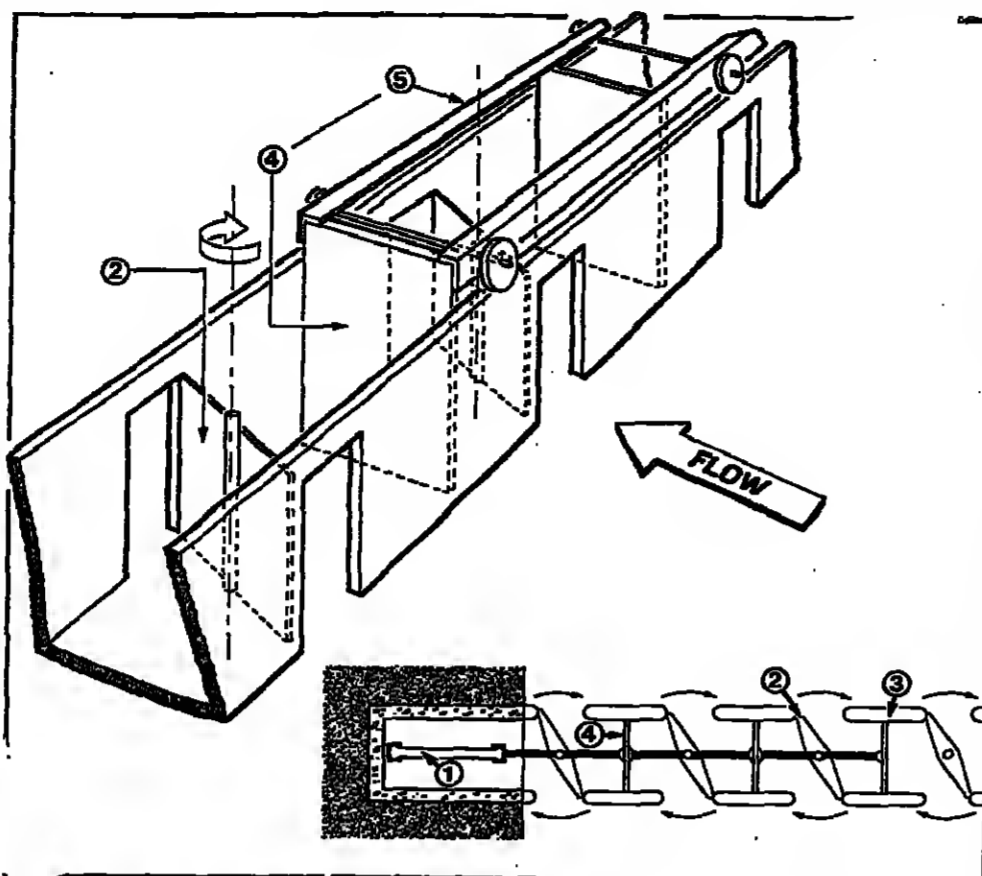
It is costing £420,000 to install, thought to be comparable to the cost of laying a submarine cable to supply a Hebridean island, but once in place, its running costs are minimal.

The device was developed at Salford University and is known as a Salford Transverse Oscillator (STO).

According to Dr Ross Wilson, director of research at James Howden of Glasgow, which is building and marketing the device and managing the prototype installation on North Uist, the significance of the STO is its potential for economic generation of power from ultra-low head water flows in rivers, canals or tidal estuaries.

"The majority of hydro-electric schemes in operation today have large installed capacities and generate electricity from high heads and relatively small flows," he says. "Whilst there are still many undeveloped high-head sites throughout the world, particularly in Asia, Africa and South America, their development requires major capital expenditure and the sites are often remote from the main centres of population, necessitating long transmission lines."

Focus is turning, therefore, to the exploitation of low-head,



1 POWER TAKE-OFF CYLINDER
2 GATE
3 BARRAGE WALLS

4 PADDLE
5 CARRIAGE
(Both linked to power take-off Mechanism)

high-flow sites having a nearby demand for power. The problem with low-head hydro-power is cost. To produce worthwhile power from low heads requires large water flows. Large flows demand large turbines. As the head is reduced, so there comes a point at which it is uneconomic to exploit the resource.

The STO, originally conceived at Salford University Department of Civil Engineering is one approach using simpler and less costly technology. It is designed to operate on heads between 0.5 and 3 metres and with outputs from 50 kW up to several megawatts.

Spanish was chosen from 56 sites in Scotland thought suitable for the STO. The installed capacity of these sites ranged from 250 kW to 7.4 MW. Together the 56 sites could produce as much electricity as a small power station.

The final choice of site was between Spanish and Calanish on Lewis. Spanish was chosen because the hospital which will take the power was nearby and because the opening to Loch-

maddy on Lewis was much narrower. At Spanish, a parallel, double-walled barrage will be built across the sea loch entrance. At regular intervals along the barrage are gaps, into which are placed vertically pivoting gates. The sections of barrage between the gates are called cells.

The gates are opened, directing the flow of water into the cells. Paddles placed in the cell by the force of the water flow. When the paddle reaches the end of the cell the gates are swivelled, reversing the flow of water, and propelling the paddle back to the other end of the cell. The process is then repeated.

A rod linking the paddles is connected to a hydraulic ram which pumps pressurised hydraulic oil. A small proportion of the oil is bled off from the main hydraulic circuit to drive the gates, making the STO self-powered.

The remainder is passed to hydraulic motors linked to electric generators. The oil can

also be used directly to drive hydraulic machinery, or to produce heat by being forced through restricting valves and a heat exchange unit.

During slack tides, the barrage will produce very little power. At other times it should meet the hospital's entire requirements.

"Although the prototype will be operating on a tidal site, it could equally well operate on a river," says Dr Wilson. It is these locations which are expected to offer greatest potential in developing countries.

Should the trials prove successful, the spin-offs could be considerable. The Crouch and Hogg report indicated that Scottish industry "could reasonably expect to be involved in at least 10 per cent, and possibly 50 per cent of any prototype, and this experience will give it a lead into a potentially large market."

Construction costs for the prototype are being met by the European Commission, the Scottish Development Agency, the Highlands and Islands Development Board and the Western Islands Council.

Chance method of computing a precise profit

A SOPHISTICATED mathematical method of estimating profits on commercial property has emerged from the lecture theatre into the real world of rents-per-square-foot and building costs, thanks to the micro-computer.

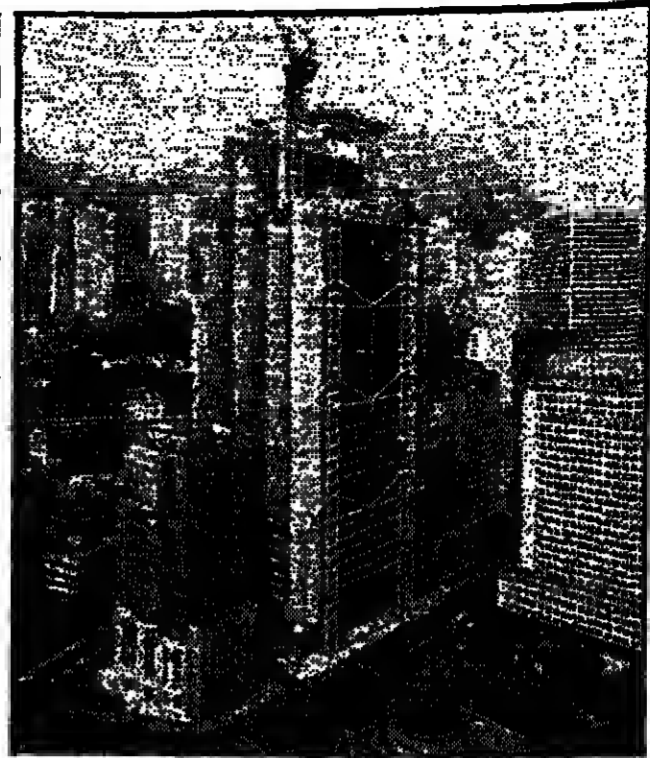
"It is simply using the computer as it should be used," says Mr Robert Greenly of Greenly's Holdings, whose computerised method for estimating residual values is used by big names like Jones Lang Wootton and Savill's. This is a very important figure for commercial agents and property companies because it tells them how much they should pay for a bare site or one in need of development. Mr Greenly has added to this program a way of estimating the profit or loss to be made from a particular development. The technique is called the Monte Carlo Method because it depends to a high degree on pure chance. It is much used by mathematicians in profitability calculations, but is very new in the down to earth business of commercial property valuations.

Essentially it depends on the experience of the agent or developer to set best and worst values for all the parameters which go into the residual value and development calculations—building costs per sq ft, gross area, net area, estimated rental value, the yield and so on.

Rent per square foot in London is a good example, said Mr Greenly, of the wide variation between £20 and £40. A difference of only a fraction of a percent in the yield can affect dramatically a developer's profit.

Once all the estimates have been fed into the computer, Mr Greenly's program runs through the overall calculation some 250 times, using at random the estimated values which can be classed into a schedule. Mr Greenly says, to show whether a particular property development is low, medium or high risk. The surveyor is therefore able to assess more accurately the riskiness of a particular property development.

Greenly's sells the residual value package complete with the Monte Carlo program for £975 plus VAT. The program is also available on the Queen Elizabeth Wharf. The plan is scheduled to be handed over to the Port Authority at the end of this year. The Dundee facility, with three steel operators will be capable of loading 2,000 barrels per day of fresh mud to supply boats and will also be able to accept the same quantity of used mud from offshore oil rigs for reconditioning. There will be storage facilities for 6,000 barrels of low toxic oil-based mud.



The Hong Kong bank building: Lessons learned in management of complex projects

Building greater reliability into modern construction

Better management methods are needed to prevent modern buildings falling down, reports Jane Rippeteau

ing to achieve, what is required and how precisely it is required.

This disparity has prompted engineers and builders to adopt so-called quality assurance programmes. This discipline has been routine for such complex jobs as nuclear power plants and offshore platforms, but now it is being applied increasingly to the design and construction of commercial buildings. It involves more than mere checking of work completed.

"It's a management system," says John Ashford, manager for quality assurance at Wimpey Group Services, a major international contractor. "The point is to transfer responsibility for whether it is right or not from the inspector to the person doing the work. It is an attitude of mind, that 'You, the worker, are responsible.'"

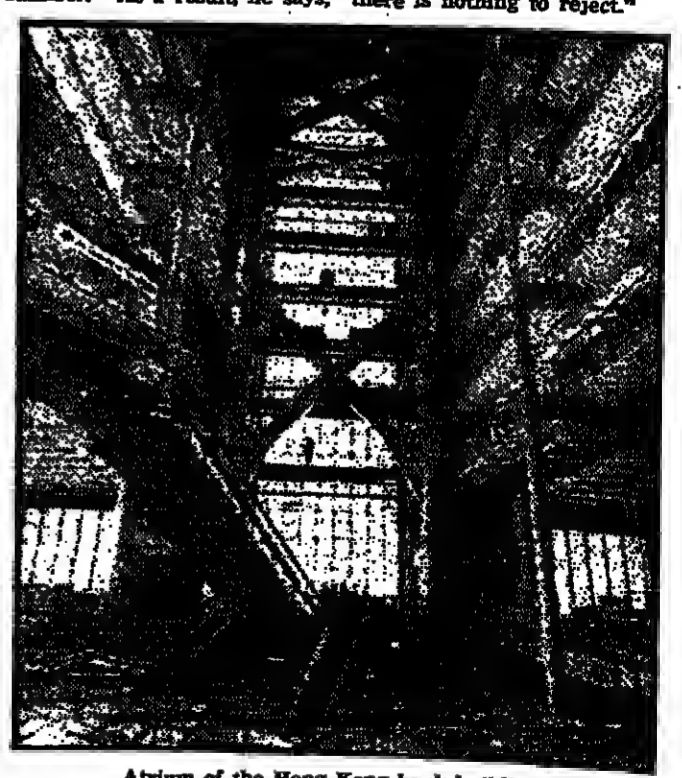
That attitude is meant to stretch from the person drawing the design to the one putting the work in place. And it is meant to clarify who is responsible for what, so that problems can be traced. Earlier this year, the American Society of Civil Engineers held a workshop on quality assurance when participants called for the review of one engineer's work by another for major projects. Some localities, including the city of Boston, already require these peer reviews.

The engineers were also unhappy with an industry practice involving modifications to drawings made after they have left the office of the design engineer. Such changes might involve making a detail easier to do on site and might be considered minor. Yet just such a change was blamed in the Hyatt Regency disaster.

In Britain, the Construction Industry Research and Information Association recently completed a survey on quality assurance, and is now condensing the paper for use as a guide by the industry. "It's a question of awareness of our responsibilities in the light of a number of failures, both civil and structural," says Alan Hart, an associate in industrial engineering at Ove Arup.

Not all failures involve a major structural collapse. One of the most irksome problems of modern buildings has to do with their skins, the outer cladding of windows and walls. Explains Mr Ashford of Wimpey: "It used to be that buildings had very thick walls and no artificial heating or cooling. Now you have very thin walls and buildings are heated in winter and cooled in summer." As a result, he says,

"We're moving from what used to be a craft-based industry into a completely different one," says Mr Ashford. "A construction site is tending to become like an assembly plant, but with a key difference. Assembly lines may rely on inspection of the final product and rejection of bad ones. That won't work in construction, he points. "You have to make sure there is nothing to reject."



Atrium of the Hong Kong bank building

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John Ashford: New attitudes needed

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The Bonds will become due and payable on the Redemption Date and, upon presentation and surrender of the Bonds, the Redemption Price and accrued interest to the Redemption Date will be paid on and after the Redemption Date. Bonds should be presented and surrendered for redemption at any of the following paying agencies:

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New York, New York 10001

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New York, New York 10001
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Box 2063
New York, New York 10001
Attention: Bond Conversion Department

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1 New York Plaza—14th Floor
New York, New York 10001
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Swiss Bank Corporation
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4002 Basel, Switzerland

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Luxembourg, Luxembourg

Such conversion rights will terminate as to all Bonds at the close of business on August 30, 1985.

BASED UPON CURRENT PRICES, THE MARKET VALUE OF THE SHARES OF COMMON STOCK INTO WHICH THE BONDS ARE CONVERTIBLE IS SIGNIFICANTLY GREATER THAN THE REDEMPTION PRICE AND ACCRUED INTEREST OF THE BONDS. SO LONG AS THE MARKET PRICE OF THE COMMON STOCK EXCEEDS \$21.71, A BONDHOLDER WOULD RECEIVE, UPON CONVERSION OF BONDS, COMMON STOCK AND CASH IN LIEU OF A FRACTIONAL SHARE HAVING A GREATER MARKET VALUE THAN THE CASH WHICH SUCH HOLDER WOULD RECEIVE IF HE SURRENDERED HIS BONDS FOR REDEMPTION.

AMERICAN MEDICAL INTERNATIONAL N.V.
AMERICAN MEDICAL INTERNATIONAL, INC.

Dated: July 31, 1985

CONTRACTS

Australian refinery upgrade

A \$50m (£25m) upgrading of BP Australia's Kwinana Refinery, south of Perth, will be engineered and designed by Stone and Webster Australia Corporation and Dave McKee Pacific Pty. The 18-month project began under way this month. The biggest refinery in Western Australia, the 100,000 barrel per day Kwinana plant is being modified to make it more cost competitive. Specifically, the catalytic-cracking unit will be modernised to produce gasoline from a wider range of heavier and less costly residual feedstocks. The new cracking unit will feature Stone and Webster's LCC process. Stone and Webster will provide project management, engineering and offshore procurement services, while Dave McKee will provide engineering and onshore procurement and construction management services.

BUTTERLEY ENGINEERING, a member of the Norcross group, has won its longest ever single order—for two kilometres (1.3 miles) of viaducts and bridges on what is believed to be one of the world's largest civil engineering projects, the London Docklands light railway. This order is worth £17.8m and involves manufacturing six viaducts, three bridges, temperature, another member of the engineering division, has won a contract from GEC Transportation Projects for heating units to be used in the 30-metre long trains. Dow-Mac Concrete, part of the construction division, has secured a £270,000 order for railway sleepers for the London Docklands light railway project.

THE BALFOUR BEATTY GROUP has won a batch of orders totalling over £11m. The Transportation and Development Department of the GLC has awarded Balfour Beatty Construction a £4.1m contract for the 1.2 km long Hayes by-pass on the A312. Work includes flexible carriageway construction, three subways, an interchange at ground level, footways, cycleways and associated works. The contract period is 18 months. A £12.7m contract for the A49 phase 1 trunk road division has been placed with a company by Warrington Borough Council for completion in 18 months. Work includes doalling 300 metres of carriageway and a bridge across the River Mersey in a composite construction.

G & A has awarded a \$500,000 management contract for modernising its department store in Sauchiehall Street, Glasgow. The 35 week contract involves upgrading six floors of the existing store in phased operations to suit the client's trading requirements. Balfour Beatty Building has been awarded a \$4.9m contract by Eagle Star Properties for the design and construction by September 1986 of four industrial warehouse units with associated two-storey offices totalling 145,000 sq ft.

Whitley Moran and Co has won awards at Cumberland and Barrow. In Cumberland, the Development Corporation has awarded Whitley Moran an £83,000 contract for completion in 20 weeks for repairing and putting concrete structures in the medium or high risk. The surveyor is therefore able to assess more accurately the riskiness of a particular property development.

Greenly's sells the residual value package complete with the Monte Carlo program for £975 plus VAT. The program is also available on the Queen Elizabeth Wharf. The plan is scheduled to be handed over to the Port Authority at the end of this year. The Dundee facility, with three steel operators will be capable of loading 2,000 barrels per day of fresh mud to supply boats and will also be able to accept the same quantity of used mud from offshore oil rigs for reconditioning. There will be storage facilities for 6,000 barrels of low toxic oil-based mud.

FAIRLOUGH BUILDING is working on phase four of the refurbishment programme at the Edinburgh City Centre, King Edward Street, ECI, a contract worth over £2m to the company's Surbiton-based southern division. Being undertaken for The Post Office, the work involves the replacement of the existing concrete and steel structure. In addition to structural repairs and alterations, Fairclough will also be responsible for redecoration, cleaning the north, east and south elevations, and replacement of corroded steel window frames with new uPVC frames.

The buildings will continue to be in use for 24 hours each day during the contract period. Fairclough is executing night work during off-peak times or at weekends. The 156-week project follows on from the first three phases (already carried out by Fairclough) and is due for completion in Spring 1988. The western division has secured another hospital project in the Manchester area. The Swinton-based division, is to build a paediatric unit at Withington Hospital for South Manchester Health Authority on a contract worth close to £2m. This unit will be self-contained with its own outpatients' department, wards, clinics, treatment rooms, and isolation facilities. Part single and part two-storey, the building will be called the Duchess of York unit and will permit closure of the old Duchess of York unit in Burnage. Fairclough Building is part of AMEC.

The engineering division of **DREXEL EQUIPMENT (UK)** based at Monroes has won the contract to build on a turnkey basis a mud preparation and reconditioning plant on the Queen Elizabeth Dock at Dundee Port. The plant will be used exclusively by BP Petroleum Development (BP) to supply its North Sea drilling requirements. The low toxic oil-based mud. The contract, worth over \$500,000, has been placed by the Dundee Port Authority who will in turn lease the plant to BP. The site is adjacent to the BP supply base

on the Queen Elizabeth Wharf. The plan is scheduled to be handed over to the Port Authority at the end of this year. The Dundee facility, with three steel operators will be capable of loading 2,000 barrels per day of fresh mud to supply boats and will also be able to accept the same quantity of used mud from offshore oil rigs for reconditioning. There will be storage facilities for 6,000 barrels of low toxic oil-based mud.

THE MANCHESTER BRANCH of STZ BROS (UK) has received orders for environmental engineering work for ICI pharmaceutical division, totalling over £1m. The main contract is to install an air conditioning system for a special tablets manufacturing facility at Macclesfield in Cheshire. Eleven air handling units will be used to move 15.8 cu metres of air per second. Extract fans, chiller units, calorifiers, sanitary works and pipework will also be installed. Completion is scheduled for October. Other contracts include design and installation of ventilation systems for refurbishment of laboratories at Alderley Park, Cheshire; and modifications to existing ventilation services in production facilities at Macclesfield.

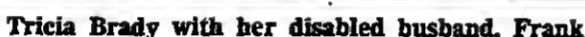


The old Queens Hotel in Leicester Square, built in 1897, has been refurbished at a cost of \$4.5m for Crothaven Properties by Wimpey. Specialist sub-contractor Connaught Southern worked on the stone facade which has been restored using Silka resin technology. A low viscosity non-shrink clear resin has been injected directly into the faces of damaged stones to restore their profiles, and has been used to stabilise the flaking stone columns.

Television/Godfrey Hodgson

Michael Clark/Edinburgh Festival

The whole movement strikes me as admirable: practical, compassionate and dedicated to reversing the cruel custom, imported from the US, of putting people who would be better off



She does all this with great sweetness and courage and an entirely sanctifying gallows humour. When feeding him spinach, she murmured, "You know who eats spinach? Popeye. I hope it has the same effect on you it had on him."

Tricia Brady praises her husband's courage. "He would crawl rather than be immobile." Her own courage is beyond praise. When her neighbours

As John Willis's other documentaries show, this is hardly the most propitious moment to propose creating another whole category of paid workers in the social services, another item in a budget that is already stretched to fraying.

The first film in Willis's series, *Home, Sweet Home*, looked at the iniquitous system that has cooped up thousands of families—4,000 in London alone—in bed and breakfast hotels, at outrageous cost to the

Worst of all was the case of the "respectable," indeed politically well-connected, businessman in Newcastle who, according to the film's entirely persuasive witnesses, not only exploits the young unemployed women in his hotel, but leaves their rooms without locks so that they are available to accommodate him sexually on

But we couldn't afford that when we tried it before, and can afford it even less now. Socialism, Aneurin Bevan said, is about priorities. So is any social policy, whatever political label you give it. There are so many deserving causes, so few resources to go around.

L'Et

These are minimal jokes in a performance which flings everything at us in the hope that some mud may stick. The evening begins promisingly. Mr Clark, Mr Hawkins, Julie Hood and Ellen van Schuylenburch are found dancing in demurest fashion, and the true pleasure of the work lies in the continuing clarity of Mr Clark's style

The shiding impression is of a young dancer in quest of his creative voice through wilder and more blatant extravaganzas. But with no controlling sense of form, or any aesthetic resources beyond vulgarity. Michael Clark remains no more than a hooligan. As a true dance anarchist, as King Ubu of post-modernism, he has a long way to go.

Max Loppert

The Day

It is an exquisitely fashioned score—not a dull bar, not a dead instrumental line, a sense of vocal usage that supplies comic and sensuous effect at the same moment. The sheer quirkiness and profuseness of Chabrier's imagination enthral: he had a Stravinskyan command of rhythm, the genius for setting farcical situations alight of an Offenbach, and, different from

Only summer praise for the cast, almost all familiar from either the records or the Parina showings. Of the leading travesty role of the pedlar Lamin, the excellent Allie-Lee gives an extraordinarily distinguished account—madcap, delicate, strangely and deeply touching. George Leno is a charming, light (in tenor) and subtle Easton (in form) as the court drolls; the heroine, Chylaine Raphaelen, has a lovely, delicate voice and has finely produced light lyric soprano to come out of France in recent times. All the singers should ideally be mentioned; it is a pity that the list of names is so long. One hope there is for some way Lynn's L'Étoile can be brought to London to share its delights with the metropolitans. The company is superb, and the hurrah performances, this week, of the jolliest show in town.

B. A. Young

August 9-15

a ladylike mien that she is willing to sacrifice in housework, as long as Luther (James Hazel-dine) does his share and does not go on being "a tame rabbit." Her character is split down the

James Hazeldine as Luther is another split personality, who knows that he ought to shout at this wife and hash her about, but who is too much of a gentleman to do so. Joe, the younger brother (Lorcan Cranitch), is more positive. He says he wants to go to Australia, but his mother's reason for opposing him is that she will come to, and he is still as tame a rabbit as Luther at the end of the play. Sandra Rose gives a quick Mr. Purdy, who is a good deal of a doer. Her daughter's pregnancy as anxious to have it settled.

I thought John Dove's production highly expert with the use of a few simple devices. It was as if it were familiar for a lifetime. The acts by Geoff Rose followed Lawrence's requirements for a play. The production is a very good evening, indeed.

Theatre

NETHERLANDS

On Your Toes (Palace): Rodgers and Hart's 1936 musical is a genuine tonic. American jazz dance collides with the Ballets Russes. Gems include *There's a Small Hotel*, *Glad to*

ansum (Victoria Palace): Michael Crawford returns to London with his breathtaking performance as the circus impresario, adding one or two new tricks in a likeable meringue of a musical. (#34 1317, credit cards £28 4753).

Myseires (Jocynn): The theatre of Henry Irving and Joss Low restored for theatrical performance after 40 years. Bill Bryden's NT production in three parts is not to be missed, one of the great events of recent years. All three shows played on Saturdays for this limited run. (£793055).

this most joyful and literate of musicals, a fitting tribute to the recently deceased co-librettist Abe Burrows (1930-1981).

NEW YORK


Cats (Winter Garden): Still a sellout, Trevor Nunn's production of T. S. Eliot's children's poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and overblown idea of theatricality. (1938 6882).

Papp's Public Theater for eight
 years but also updated the musical
 genre with its backstage story in
 which the songs are used as audi-
 tions rather than emotions.
 (239 8300).

Sunday in the Park with George
 (Booth): Inspired by the Soviet
 painting, Stephen Sondheim fash-
 ions a musical with dots and dashes
 of song that end too soon but work
 well with Tony Straige's pretty set
 and James Lapine's book which
 changes gears in the second act.
 (238 6262).

WASHINGTON

Mount of Monte Cristo (Eisenhower): The second production of Peter Sellers' new American National Theatre company is the James O'Neill version of this swashbuckler. (254.3670).

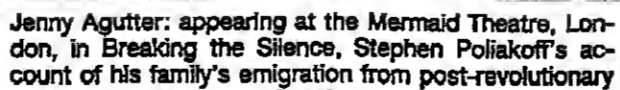


**James Hazeldine and
at the Hamp**



Alastair Muir

Cheryl Campbell
Lead Theatre



Russia.

A Coward Line (Shubert): The long-running musical ever in America has not only supported Joseph Papp's Public Theater for 40 years but also updated the musical genre with its backstage story, in which the songs are used as emotions rather than emotions.

NEW YORK (239 8306).
Sunday is the Park with Geo (Booth): Inspired by the South painting, Stephen Sondheim has fusions a musical with dots and dashes of song that end too soon but well with Tony Strallege's pretty and James Lapine's book, which changes gears in the second (239 8382).

ture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (7572638).

torch Song Trilogy (Helen Hayes): Harvey Fierstein's touching and funny recollections as a drag queen add up to the best histrionic Sarah Bernhardt role on Broadway today.

WASHINGTON

ount of Monte Cristo (Eisenhower):
The second production of Peter Sellers' new American National Theatre company is the James O'Neill version of this swashbuckler.
(234.3670).

**James Hazeldine and
at the Hamps**

Cheryl Campbell
Head Theatre

FINANCIAL TIMES

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Wednesday August 14 1985

TUC cry from the wilderness

THE Charter for Change launched by the TUC yesterday is rather a sad document. It eloquently expresses the frustration of a body which has progressively been shut out of policy-making in the last few years, but does little to establish any claim to be taken seriously.

The analytic quality is a sorry come-down from the standards that Transport House used to set in its economic reviews; figures, for example, are used so selectively as to revive the old chestnut about lies, d-d lies and statistics. The policies recommended mix some rather good and some downright awful ideas, with a strong overtone of nostalgia for the brave days of the 1960s and the ideas which flourished then. Most depressing is its insularity — despite a discussion of international trade union views. The TUC seems unaware of how modern socialism is developing.

Good propaganda has its uses, of course, and the drafters have some effective knock-about fun at the expense of the Government and its misused monetary targets and over-optimistic forecasts. Most of the criticisms have been heard before, but are borrowed from respectable sources — the CBI, Lord Weinstock, and it may be suspected, from our own columns. The characterisation of the Government's vacuous White Paper on employment as an admission of defeatism is shrewd, and will no doubt be taken up by Opposition speakers of all parties.

Projections

The central policy recommendations are a mixed bunch, but at their best where they are least original. The TUC's ideas on inflation, as might be expected, have been sealed down to match the relative moderation of Messrs Hattersley and Kinnoch, and are indeed in line with the Chancellor's own recent projections of future scope for fiscal adjustment. The stress on the development of human capital and industrial research is welcome, and might indeed get a sympathetic hearing from Mrs Thatcher could communications be restored.

The TUC is also right to stress the problems that declining oil production will pose, and echoes the CBI on competitiveness. At this rather early point, however, we begin to run out of compliments. Trade unions are centrally concerned with pay, but the discussion here is very thin, and still manages to

be self-contradictory. As is almost traditional, the TUC is concerned both with low pay and to defend differentials. It is concerned to restore public sector real wages, to ensure a "decent annual increase is real pay" for all, and yet dwells on the loss of real national income from oil.

There is only a single throw-away phrase about the problem of cost inflation; rather than incomes policy, we get a lot of coded talk about the merits of "progress through agreement," and admiring paragraphs about Sweden and Austria without a word about the pay consensus which has been so successful — most of the time — in those two countries.

The best that can be said is that at least we are spared the usual rhetoric about "free collective bargaining"; there is nothing here actually to forbid the TUC from discussing incomes with a future Government which might wish to discuss policy with the unions. This is not much to build on.

Realities

What is wholly deplorable is that the TUC is not only in favour, as might be expected, of exchange controls (perhaps realising that the present upward pressure on sterling because capital wants to get in would not be a problem of political developments favour the TUC), but also, unlike the Labour Party, of selective import controls.

This gives the lie to much talk about the need for efficiency and the need to provide markets for poorer countries; the multi-fibre agreements, which operate only against poor countries, are singled out for praise.

These are still early days in the development of the new, studiously moderate Labour consensus, and there is time for the TUC to remember its old expertise in making macro-economic sums add up — and perhaps to learn that the Reagan experiment is deficit financing is not all wine and roses.

The insularity, though, suggests that the TUC has simply turned inward in its current distress. A fund to enable union leaders to visit effective market socialist regimes — in Australia and New Zealand, in Hungary and China — and perhaps, before too long, in the USSR — would be a worthy charity.

We need a TUC alive to the realities of the 1980s, not the past.

France's summer troubles

THE MONTH of August which French people, perhaps more than any other, look upon as a sacred period of rest and recreation, has turned out to be an unenviable time of activity and frustration for President Mitterrand and his Government.

Many of the President's foreign chancelleries have closed at all times, to come home to roost, requiring even an extraordinary session of the National Assembly and the postponement of an important visit to Japan by the Defence Minister, M Charles Hernu.

Some of the problems that have arisen are entirely of the French Government's own making, such as the second thoughts it seems to be having about participation in the European Fighter Aircraft project, on which agreement was reached early this month by Britain, West Germany and Italy.

Things will doubtless become clearer after the meeting between M Mitterrand and Herr Helmut Kohl, the West German Chancellor, later this month. The assumption must be, however, that Bonn will not back out of its agreement with London and Rome at this late stage, even for the sake of the battered Franco-German alliance.

M Mitterrand, for his part, will not want to strain that special relationship to breaking point, when he is facing even more intractable problems elsewhere.

Referendum

Those problems are situated mainly in the South Pacific, where the Government's successive proposals for the political future of the French island of New Caledonia have run into the often violent opposition of the white settlers, as well as being rejected by the Gaullist and Centrist opposition parties at home.

The procedure adopted by the Socialist French Government for the eventual granting of independence to the South Pacific territory, in line with the basic demands of the indigenous Melanesian, or Kanak

population, has already been blocked on one occasion.

Yesterday, the Socialist-dominated French National Assembly, which had been recalled for a special summer session by M Mitterrand, passed an amended Bill granting a few more seats to the white population in the constituency of Noumea, the New Caledonian capital.

The Bill now has to go to the opposition-controlled Senate before returning for final approval to the Assembly. But the opposition, including one of their chief representatives, former President Valéry Giscard d'Estaing, still claim that the Bill is unconstitutional and have promised to refer it back to the Constitutional Council.

The upshot of all these political manoeuvres is that the Bill for regional assemblies in New Caledonia, which has been delayed and may not now take place until the end of this year, if then. That is a dangerous prospect for M Mitterrand, given the imminence of next spring's general election in France and the likelihood that the opposition parties will emerge from them with a substantial majority in the National Assembly.

The future of New Caledonia is an emotive issue in France, which the opposition parties will certainly continue to exploit to the full. The problem of the island is one of the elements which made the granting of independence to Algeria such a painful, long drawn-out and bloody process: a large number of settlers of French origin, making up some 37 per cent of the total population, prepared to fight to the death for their cause.

It is clearly not the kind of issue that any political leader, least of all one whose support in the country seems to be dwindling, wants to be saddled with during an election campaign.

One of M Mitterrand's strongest points has always been foreign affairs, but he has recently lacked the deft touch required to give the party, of which he was once the leader, a fighting chance next spring.

"WHAT a development opportunity," sighs Mr Jon Foulds as he gazes from his South Bank office window over the vast expanse of grimy glass covering London's Waterloo Station below.

A typical reaction, perhaps, from the man who runs Investors in Industry (or 3i as it is now known), Britain's largest venture capital company with a balance sheet of £1.7bn. But if Mr Foulds spends his time on the look-out for what he calls "the hidden entrepreneurs" who need a hand to get their business ideas moving, he is also now a man concerned with his own company's future.

For more than six months, 3i's owners — the big UK clearing banks and the Bank of England — have been considering whether to sell the company, and if so, to whom. It was prompted by Midland Bank which needed to realise capital to help it through the losses it sustained from Crocker National Bank, its California subsidiary. But other clearers are also receptive to the idea.

"Capital is a scarce commodity," Sir Timothy Bevan, the chairman of Barclays Bank, said earlier this month when discussing his own bank's attitude to the sale. "That makes us much more concerned about capital that is locked up." Other clearers have commented that 3i increasingly competes with their own growing venture capital business, and this could be a reason to sell.

But the lengthy deliberations — and the secrecy in which they are being conducted — have done little to help the sale of 3i. It is a much more complex matter than just dumping it on the market to raise money or to get rid of an in-house rival. The task is so complex that merchant bankers Morgan Grenfell were called in to analyse the options.

3i is a special, if not unique, institution considered by all to be a good thing, not to be damaged through sale. This view is being argued chiefly by 3i's only non-commercial shareholder, the Bank of England, and by 3i's management itself, though the banks are clearly sympathetic to it too.

"It is absolutely essential that our ability to continue to take a long-term view of investment is preserved, together with our high standing in financial markets which enables us to raise all the money we need at the finest rates," Lord Caldecote, the chairman of 3i, says in its recently released 1985 annual report.

3i — or rather its predecessors the IFCF and the FCI (see page 12) — has for 40 years ago to provide the riskier types of long-term finance for British business. The clearers and the Bank of England were brought in as owners out of what Mr Robin Leigh-Pemberton, Governor of the Bank, calls "their national duty." For two or three decades, it was virtually the sole source of venture capital in the UK.

In the last 10 years or so, the other banks and other financial institutions have begun to develop their own



Jon Foulds

venture capital business, to the point where there is now, if anything, a surfeit of funds chasing new business ideas. However, 3i remains both the biggest and, in many people's view, the most successful venture capital company in the UK.

Today, it is organised into three basic groups:

- Advisory companies which provide consultancy and portfolio management services and perform essential tasks like rescuing companies in distress.
- Investment activities through which the bulk of 3i's investments are made. These are grouped largely round 3i Regions, formerly the IFCF which provides finance for medium and small business.
- Another group, 3i Ventures, is at the "sharp end" of the market, finding promising high-growth companies which need both money and managerial expertise. There is also a group which handles 3i's activities in the City, mainly putting together deals with the corporate finance departments of merchant banks for larger

packages in conjunction with other financing institutions. Among its claimed "firsts" was the UK deep discount bond, for William Collins, the Publishers.

3i's relatively greater size than other venture capital outfits also enables it to take on slightly larger commitments, another special feature. "It's easy enough to round up £15m equity for an unlisted company," said Mr Edwin Macpherson, director of 3i City. "It's a different matter if you move on to £30m."

3i Ventures, by contrast, says it is in the "business of building businesses" as opposed to just investing in them. Though one of the smallest parts of the

group, it gets very closely involved with the companies it handles.

But it is a treacherous business. Last year 175 of the group's companies, or 5 per cent of its portfolio, went out of business. Profits were also hit by a £3m provision against investment losses in the recession-hit shipping industry.

But this record is no worse than others in the risk capital business. Considering 3i's close involvement with high growth markets, it is probably above average.

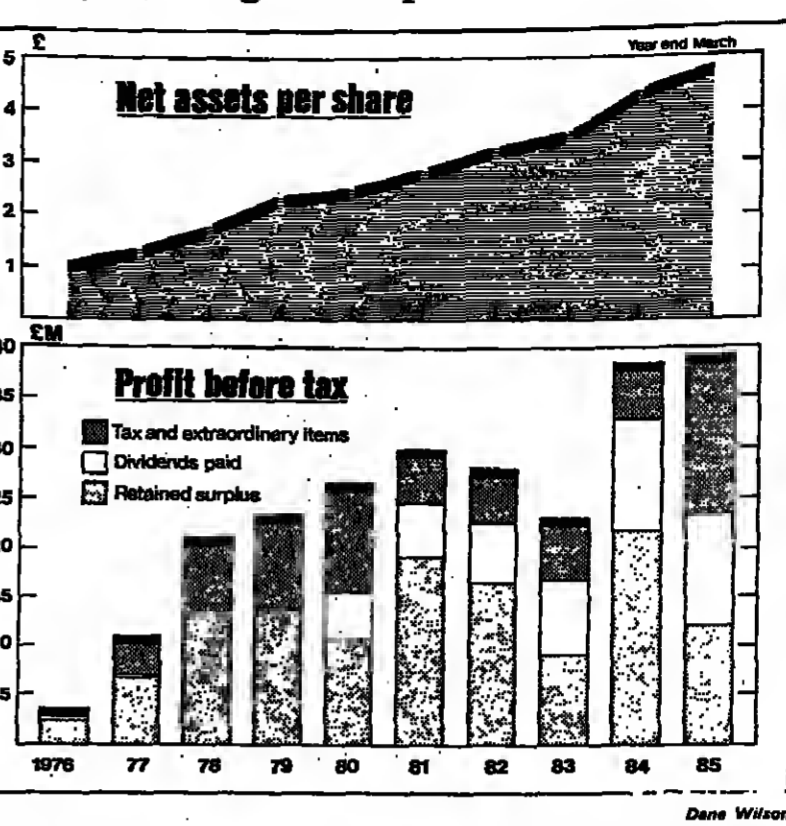
THE OWNERSHIP OF 3i

Investors in Industry is the new name adopted in 1983 by Finance for Industry, the holding company formed in 1972 for Industrial and Commercial Finance Corp (ICFC), Finance Corporation for Industry (FCI), and smaller subsidiaries. Its shareholders are the Bank of England (15 per cent), Bank of Scotland (3 per cent), Barclays (19 per cent), Lloyd's (14 per cent), Midland Bank Group (18 per cent), Royal Bank of Scotland Group (7.5 per cent) and National Westminster Bank Group (23.5 per cent). In the year ending March 31 1985, it made a pre-tax profit of £38.5m, up slightly from £38m the year before. Its balance sheet on that date totalled £1.7bn.

What evidently worries the people at 3i is that the clearers' deliberations about its future could well be influenced by its below average performance measured purely in terms of the growth of its profits, rather than the steady rise in the value of its assets. This is not to say that profits are not rising; they have, but not as fast as the value of its assets. This is not to say that profits are not rising; they have, but not as fast as the value of its assets. This is not to say that profits are not rising; they have, but not as fast as the value of its assets.

On the assets yardstick, not surprisingly, 3i comes out much better. Over the last 10 years on a compound basis, 3i's net assets per share have grown by 17.7 per cent, including reinvested dividends, or 16.3 per cent excluding them.

Ten years ago, the group was worth £118m. As of last March 31, it had a net worth of £558m, which is the sum at stake as far as the owners are concerned.



Dane Wilson

concerned. Its success in this period was achieved with only two calls on the shareholders, for a total of £40m.

Were 3i to be stripped of its protective ownership and floated on the stock market, the worry is that its new shareholders would demand rising profits and dividends. This would not only make it hard for 3i to take the long view, it would also force a change in its investment philosophy in favour of companies paying a high dividend, or those whose shares it could dispose of readily to realise gains. These are not characteristics of companies 3i believes it is largely in business to serve.

The solution may be to float 3i off in a form which insulates it from these pressures, possibly by transforming it into an investment trust. This would require the agreement of the Inland Revenue.

Although the idea is being mulled over at 3i's headquarters in London's Waterloo Road, no firm decisions have yet been made. Were 3i to become an investment trust, it would rank among the largest in the UK and be a unique animal that would challenge the analytical skills of the City.

The profitability question is particularly sensitive because 3i might not be able to fund itself on quite such fine terms once it loses the backing of the clearers and the Bank. At the moment it enjoys the top credit rating on the U.S. commercial paper market, and is a frequent and successful borrower on the international and UK capital markets. On its own, it might have to pay more for its money.

Fortunately, 3i has not had to tap the markets during the recent period of uncertainty, and Mr Foulds says it has been able to pursue its lending and investment activities smoothly. But an early decision about its fate would obviously be welcome for the management.

The timing and forms of such a decision still looks uncertain. The view in the City is that the Bank of England may be trying to persuade the clearers not to sell, or at least divest their shareholdings in a form that preserves 3i's essential character. In his only public comment on the matter, last February, Mr Leigh-Pemberton said:

"What the outcome will be I cannot forecast. What I can say is that if there should be changes, it would be right that 3i should maintain its successful role in the long-term finance of the unquoted enterprise sector of industry."

The Bank may also be underlining its opposition to outright sale now that Midland Bank has successfully raised £750m of new capital in the Eurobond market, and is under less financial pressure.

Any decision must be unanimous, so the Bank could block the sale if it wanted to. But given the strains in its relations with the clearers caused by the Johnson Matthey Crisis, it may not wish to press the point too hard. Should the sale be blocked, though, Midland may try to negotiate the sale of its shares to one of the other shareholders.

Pick of the stocks

The London Stock Exchange's corporate contribution to the forthcoming Big Bang in the City of London is to be a new, high-profile, publicity campaign. While it is not yet certain that the exchange will advertise on television, I am told from the Trogon Street fastness, "There has to be a very good chance of it coming about."

A variety of scripts suggest themselves. How about a dramatization of the ritual removal of trousers? When a stranger was spied on the floor of the old exchange building it was customary to cry "1400" — the membership being limited to 1,399 — and the interloper was promptly debagged.

I am assured that such things do not happen in the new exchange. But surely a little poetic licence would be in order to produce riveting television.

A television slot would be the keystone to a growing publicity edifice built by the stock exchange during the last few years.

The smartly dressed gallery guides are now escorting more than 200,000 visitors a year — a tenfold increase upon five years ago.

The stock exchange investment evenings held around Britain have been a sell-out. Every meeting arranged so far has been oversubscribed, says Peter Davis, who has just taken over responsibility for the exchange's new publicity department.

The BT issue created an extra 1m British shareholders overnight and the stock exchange is expecting further big increases in shareholders' ranks with the forthcoming issues for British Gas and British Airways.

Davis argues that television advertising would be a logical way to keep up momentum — which the exchange officials measure in terms of numbers of new inquiries for advice on buying and selling securities.

Men and Matters

Until recently the level of our country was fairly constant at 300 a month. Now it is standing at 2,000 a month.

A television campaign would also be a logical extension of the stock exchange's excursion into mass media. For the last 11 months it has been financing a programme called Family Money which is now taken by 60 per cent of the independent radio stations in Britain.

Finally, the stock exchange is courting publicity this year with its own road show. A mobile exhibition is touring agricultural shows and boat shows throughout the summer.

Crooked lines

An informal brainstorming session by British Telecom managers in Liverpool produced some interesting ideas on how to reduce telephone box vandalism.

There was the toast-rust-proof roof reaching halfway to the pavement to deflect missiles; and the sprinkler system that would spray the vandals if electronic gadgetry detected misbehaviour.

Then someone recalled that on a recent visit to New York, he had been surprised to see that many public phones in poor areas of the city had not suffered from vandalism at all.

A call to his opposite number in the Big Apple revealed the answer — the market forces of the black economy.

It seems that many New York pay phones are protected by organised drug dealers who rely on them to do their business. BT's managers went back to the drawing board...

Counter-attack

The top people's store is the latest place to feel the winds of independent trade unionism



"I'll bet Lazard Freres are delighted — and so are their sisters and their cousins and their aunts"

blowing down from the Midlands coalfields. Former and disaffected members of the shopworkers' union, Udaw, are trying to establish a breakaway union there under the rubric of the Harrods Staff Union.

The issue is a topical one, too. The rebels are angered by what they say is Udaw's refusal to ballot on matters which have arisen within the store. But, Udaw retorts, no-one asked for such a ballot.

The new "union" has got itself listed by the Certification Officer as a trade union, but it has not applied for a certificate of independence. Tom Osborne, Udaw's Eastern divisional organiser, says the breakaway is tiny and he is not worried.

Harrods is not — so far — taking the Ian MacGregor line on this. Instead of holding meetings with the rebels in nearby hotels and offering them more money, it issued a stiff

statement yesterday saying, Udaw was the only union recognised and the new association would not be given negotiating rights or any facilities. Udaw reckons it has some 965 of the store's 2,000 employees.

But Harrods did not get where it is today by being dogmatic. The new body rivals Udaw's membership, it may think again. Recruitment battles could rage round the caviare counter.

Myth placed

The FT seems to have touched a sensitive nerve with its story a couple of weeks ago of claims that the ancient city of Troy was sited in Yugoslavia and not in Turkey.

Our man in Belgrade reported that without even waiting to see a translation of the thesis put forward by Mexican philologist, Roberto Salinas Price, Yugoslav tourist agencies had rushed to make the most of the opportunity.

The theory — that Troy was sited at the village of Gabela, near Caplina — was seen as "a godsend to the Yugoslav tourist industry, and anyone casting doubt on the new thesis is regarded as a virtual traitor to the cause of Yugoslavia's invisible earnings," our man wrote.

A Yugoslav magazine has taken umbrage at "the Brits accusing us of retelling and commercialising unproved scientific hypotheses and striving for invisible earnings."

The British seem to have forgotten, says the magazine, that they themselves are the creators of this tourist trick and that for centuries they have been selling fog and ghosts to the tourists.

Guaranteed

From Andorra comes the story of the two girls working in an invisible-mending shop.

"You don't need to be so fussy, dear," one said to the other. "Nobody is going to see it."

Observer



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Dear Mr General Secretary,
Here are the World Bank's confidential and informal comments about economic reform in the Soviet economy, which you requested be passed on to Moscow through Ambassador Dobrynin. I need hardly stress that these comments have no formal standing as official World Bank opinion, since your country is, regrettably, not a member of the Bank, nor any claim to expertise, since Bank officials as such have not visited the Soviet Union.

But we are flattered that our recent report on the long-term issues and options facing China, a socialist economy of comparable dimension to the Soviet Union, has attracted your attention, and encouraged that you think that report might have some lessons for the Soviet Union.

I appreciate that you may regard some of our economic prescriptions as incompatible with Soviet ideology; that is not for us at the World Bank to judge. I would only point out that, while we generally favour free markets, realistic pricing, and currency convertibility, the Bank like its sister, the International Monetary Fund, has a world-wide membership and does not espouse capitalism over communism.

Drawing principally on our report on China, but also drawing on experience gained in working with such Bank members as Hungary, Romania and Yugoslavia, we summarise our recommendations as follows:

● **Planning:** We heartily endorse your public call for a change in Soviet central planning, towards ministries along with the state planning committee, focusing more on setting longer term strategic priorities and enterprises, or associations of enterprises, gaining more autonomy in the daily running of their business.

We would, however, urge that as you set about designing what you have called "a flexible mechanism," you consider further and modify the system of setting compulsory annual input allocations and output targets for each and every enterprise. The main focus of central planning attention would then become the medium term or five-year plans, which of course could be adjusted and monitored each year.

We realise this would be a major change in an economy that has been centrally planned longer than any other socialist economy. But we feel that moving the whole process of detailed economic administration a few rungs down the ladder, from Gosplan towards those on the factory floor, would be the best way of achieving the greater responsiveness to consumer demand and to technical



Open letter from the World Bank

Some polite suggestions for Mr Gorbachev

David Buchan, East Europe Correspondent, offers thoughts on economic reform to the Kremlin

Mikhail Gorbachev

A. W. Clauson

innovation that you have said you want.

Hungary dismantled mandatory annual targets for enterprises in one step. But more suitable for a vast economy like yours would be to have suggested in our report to the Chinese, to "reduce gradually each year the proportion of material requirements covered by the state allocation and, in parallel, the obligatory state production and procurement quota."

● **Pricing:** However skilled central planners are, and Soviet planners have longer experience than any others, we believe that centrally administered prices lack, as we said to the Chinese, "the flexibility, complexity and precision needed in a modern economy."

Market supply and demand forces should play a greater role in shaping prices, which should be decentralised as widely and rapidly as possible. There may be powerful short-run objections to such price decentralisation. Where shortages exist, freer prices may mean much higher prices. But, as we said, rather bluntly, in our China report, "Soviet and East European experience suggests that chronic shortages are not the temporary result of inadequate production capacity, but an enduring feature of administrative economic management, which can only be eliminated by systemic reforms, including price decentralisation."

We note that you have spoken publicly of the need for "radical improvement" in Soviet price formation, but do not apparently intend to let a freer or more automatic price mechanism take some of the burden of allocating resources

off the shoulders of your central planners. We would urge you to be more ambitious in this area.

● **Competition:** As the Chinese leadership has recognised, some competition is crucial to efficient growth. One precondition for this is to let enterprises buy from the best and cheapest sources, which could be achieved by the reduction in the input allocation system that we have already recommended. Another key ingredient is to allow free entry of new producers or trade organisations into particular markets, which Hungary has permitted to some considerable extent.

As we understand it, you in

and tax signals as to compete."

This generalisation, from our China report, holds good, we believe, for all Socialist countries. But if you are considering internal management changes in Soviet enterprises to enhance their motivation, we would counsel that (a) you eschew Yugoslav-style worker control—which seems to be inflationary as workers tend to vote themselves excessive pay rises—and (b) you consider the approach not only tried in some capitalist countries, but now in Hungary, with workers represented on the boards of small and medium-sized companies. The largest or most important enter-

"We believe that you would have several compelling reasons to reverse the long neglect of services in the Soviet economy"

prises could stay under direct control of the state. ● **Services:** The share of services to the consumer such as restaurants and tailors and to enterprises such as finance, accounting and the law is strikingly small in Socialist countries. Indeed, services do not even figure in Socialist countries' national income statistics, but a forthcoming study done for the World Bank estimates that services only account for an average 20 per cent of the gross national product in the Soviet Union and eastern Europe.

We believe, Mr General Secretary, that you would have several compelling reasons to reverse the long neglect of services in the Soviet economy. First, an expanded network of

prizes could stay under direct control of the state.

● **Foreign capital:** We at the World Bank believe that the Chinese have been wise to encourage direct foreign investment, as we told them, "less for the foreign capital or advanced technology it brings than for the demonstration effect of modern management techniques."

This argument is reinforced in the case of the Soviet Union, which by your own account lacks management much more than technology.

This, then, is the summary of our views which you asked for. I hope they are of interest, even if not of immediate practical use. Were the Soviet Union to be interested under your leadership in joining the IMF and World Bank, we would warmly entertain such an application. Full agreement with the Bank staff views is not a prerequisite for membership; if that were so, we would have very few members indeed.

Wishing you every success in your task.

A. W. Clauson,

President of the World Bank.



Sanctions and South Africa

History shows success cannot be assured

By Gary Hufbauer and Jeffrey Schott

WHEN Congress reconvenes next month, it will send President Reagan a Bill imposing economic sanctions against South Africa.

The sanctions include a ban on sales of kruggerands, on bank loans and computer exports to government agencies, and on transfers of nuclear technology and equipment. In addition, compliance with the Sullivan Principles would become mandatory for most U.S. subsidiaries in South Africa. Additional measures would be imposed if progress towards ending apartheid is not made within a year.

The Bill reflects a bipartisan Congressional stand against apartheid and a challenge to the Administration's policy of "constructive engagement."

The proposed measures are largely symbolic; they impose no significant costs on the South African economy. The President could sign the Bill, rationalise

(eg. a porous arms embargo) and feebly enforced. The potentially most damaging measure, the Arab oil embargo, was undercut by Iran until 1979. By that time, South Africa had reduced its reliance on imported oil through stockpiling and the development of nuclear energy and synthetic fuels. South Africa has been given more than 20 years to learn the fine art of evasion; indeed, it taught Rhodesia how to circumvent UN sanctions in the 1960s and 1970s.

Half-hearted rebukes do not carry great weight. The message of U.S. sanctions seldom reaches the foreign target when the Congress and the Administration sound discordant notes. Frequent attempts by the last seven administrations to cut U.S. aid flows in the knowledge that the Congress would not let such measures stick for very long. Turkey also ignored U.S. attempts in the mid-1970s to dislodge its troops from Cyprus in part because of efforts by the Ford and Carter Administrations to undercut congressional mandated sanctions.

Sanctions have sometimes been effective against allies and close trading partners. Allies are more likely than adversaries to bend to economic pressure in deference to broader political and strategic objectives.

The UK and France withdrew from the Sinal in 1956 partly in response to U.S. sanctions; South Korea and Taiwan devalued their currencies in the face of U.S. demands to build nuclear reprocessing plants under the shadow of cuts in U.S. economic and military assistance. These examples and others suggest that sanctions will have a better chance of prevailing if the U.S., the UK and West Germany maintain relations with South Africa.

Until recently, most Western countries—for their own domestic reasons—were less engaged than the U.S. in condemning apartheid. Sweden banned all new investment in South Africa in 1979, but the Swedish experience showed that one country's withdrawal was soon replaced by another's deposit, with no net drain on South African resources. France has now joined the ban, but France, like Sweden, is a marginal player in the South

African investment game. Even the U.S. accounts for less than 20 per cent of total foreign investment in South Africa; the UK and Germany, by comparison, have more than a 50 per cent share, and both remain reluctant to impose sanctions. Unilateral sanctions will not dent the armour of apartheid. The U.S. and key European countries must co-ordinate their policies to create even a semblance of effective pressure against the South African Government. Such pressure might best be directed towards the implementation, over a period of time, of specific reforms that gradually erode the pillars of apartheid. The South African Government could be asked to take several pragmatic steps. For example, the government could first endorse, and later implement, the programme advocated last January by six South African employer groups: universal citizenship; meaning-



ful political participation for all blacks; free and independent trade unions; the right to own shops or conduct business anywhere in the country; and an end to the forced relocation of people.

However, if reforms come to South Africa, they are likely to be inspired by internal developments that are only tangentially related to Western economic pressure. Even if a joint programme of economic pressure is agreed by the U.S. and Europe, and even if the programme seeks practical reforms, the historical record indicates that success is not assured. Less than a quarter of U.S. attempts to deploy sanctions since 1973 have been even partially successful. The record for large international campaigns in pursuit of ambitious goals through the use of economic pressure is particularly dismal.

Gary Hufbauer and Jeffrey Schott are fellows of the Institute for International Economics and senior advisors of Economic Sanctions. Reconsidered: History and Current Policy, Washington, Institute for International Economics, July 1982.

A tax/wage trade off

From Mr G. Webb

Sir—Mr Prowse's article on unemployment and wages (August 8) was refreshingly balanced. For too long public discussion on the UK unemployment problem has been highly politicised; Mr Prowse's article, on the other hand, starts with the undeniable economic fundamentals (the link between wages and jobs) and then makes the observation that people already in employment may be reluctant to forego wages unless they know others are doing likewise. His argument for an incomes policy rests on nothing more than that—underlying economic fundamentals and common sense.

While the history of incomes policies in the UK is not very encouraging, circumstances have, indeed, changed: unemployment is considerably worse than at other post-war periods when incomes policies were attempted; the links between wage restraint and job prospects are now much more widely accepted, both in the UK and elsewhere; and the Government has already publicly stated its desire for large tax cuts before the next election.

This last observation is a potentially crucial one. Pessimists may believe that those in employment are not only unlikely to agree to wage restraint individually, through fear of losing out in relative pay terms, but also collectively, unless they are offered some quid pro quo. For such pessimists—and I count myself among them—an explicit tax/wage trade-off, with personal income tax cuts being contingent on wage restraint, provides the answer. This approach has been tried recently in Australia. The result: two years of very high real growth, with prospects of more to come, and substantial inroads into the unemployment problem.

Geoff Weir,
15 rue de la Federation,
75015, Paris, France.

Less spending power

From Mr D. Redfern

Sir—I wish that people such as Michael Prowse ("A vein that is waiting to be tapped," August 9) would follow their arguments to a logical conclusion. It never seems to occur to them, for example, that a drop in wages in real terms means less spending power, less effective demand for products, and therefore more unemployment. If their contention were then one of "reducing wages to the level of the rest of the world," it wouldn't happen. The saving in wages would not go to wages for more people, but elsewhere, as will soon become apparent. In any case, this theory takes the less each individual takes in wages, the more people can

Letters to the Editor

be employed, seems to stem from the old exploded idea that there is a fixed sum from which all wages are drawn. A little thought should convince anybody that this fund is purely imaginary. As a man works, he adds his quota of value to the other quotas that go to the finished product, and his wage should be equivalent to the value he has added. The more men, the more wages.

If, however, contrary to all common sense, labour can be persuaded that it will benefit from lower wages, attention will be distracted from what really happens. Could an unprejudiced observer fail to notice that, while the real value of wages is on the decline, or is with difficulty maintained by industrial action, the value of land is quietly accelerating upwards, at a rate in excess of the rate of inflation? And well may this happen, with the tight hand of the speculator releasing it in grudging dribbles, while 250,000 acres of urban land alone, according to the Civic Trust, are devoted to dereliction.

But very seldom does one see land taken into account when remedies for unemployment are being discussed, although land is essential for all purposes of production and exchange, and idle land means idle people. The true remedy is to tax all rural or potential rent.

David Redfern,
15 Fennell's Close,
Eastbourne, Sussex

Artistic freedom

From Mr P. O'Shea

Sir—I am rather puzzled by Professor Myddelton's letter (August 12) bemoaning the "artistic freedom" of the National Coal Board's accountants.

Leaving aside the digressions into the justification of the recent industrial conflict in that industry, one may accept that accountancy is both an art and a science, but one can hardly go along with Professor Myddelton's statement that accountancy is an art not a science.

Although there is no doubt that the bottom line will depend on the basis chosen for production, the particular set of figures is not a particularly accurate or unachievable, sanity requires that the objective of accountants is to get as close to the truth as reasonably possible.

An artist has the freedom to exercise his skills and imagination in a way that society has thought fit to allow in the accountancy profession—for reasons most of us would under-

stand. Obviously the NCB is treating its accountants as an artist would and is not subject to the controls and restraints that any company accountant should be subject to. Perhaps we can all agree that the NCB is different and only subject to criticism in comparison with other national practitioners in this artistic field.

P. J. Pace O'Shea,
18 Westchester Drive, NW4

The Britoil issue

From Mrs E. Mabey

Sir—Re: "Small investors winning big in Britoil issue" (Lucy Kelway, August 10). Did they? Surely not. It could be said they were even conned over it.

The prospectus stated a minimum of 200 to be applied for but even that did not materialise. If this is the way small new investors are to be treated they will soon lose heart.

We applied for 1,400 shares knowing we might only receive a scaled down allocation the minimum being 200 which we would have unwillingly accepted but now we have heard that our allocation will be 150 shares, which to us seems unrealistic.

We feel we have been misled by the prospectus and as ordinary small investors working for all our savings feel let down and disillusioned. Given the choice under these circumstances we would have chosen to reject this offer without hesitation.

We did not go in with our eyes shut, we even read the small print in your paper's prospectus but nowhere did we find any mention of less than a minimum 200 allocation.

Scaled down larger amounts! Yes, they were there so were multiples of 100 about 200. Is there a lesson there for future flotations?

We shall find it impossible in future to apply for shares on this allocation basis.

(Mrs) E. M. Mabey,
39, Gifford Road,
Clerfildon, Avon.

Wider share ownership

From Mr R. Beville

Sir—Contrary to the assertion in the somewhat muddled Lex column of August 10, the Britoil allocation does encourage wider share ownership.

The small number of shares in each allocation means that more applicants receive stock than would otherwise be the case. Those who applied for more than 1,400 shares may indeed

not be very rich, but they are surely very likely to own some other shares. The small profit available to successful applicants is also commendable—it meets political criticisms of "easy pickings," while encouraging the new owners to hold their shares—so the spread of ownership is not merely transitory.

What is not so desirable is that dealings will commence before small shareholders receive their allotment letters. They are effectively excluded from taking part in several days' second-class treatment. I am sure this will create unnecessary bad feelings.

On the whole, however, the allocation is consistent with the Government's proclaimed policy objectives in this area. It is, therefore, deserves a bouquet, not a brickbat.

Richard Beville,
Flat 2, 111, St George's Square,
SW1.

Revamping the bourses

From Mr M. Hawtin

Sir—I refer to the article by Jonathan Carr (August 9) on revamping the German bourses. While the effects of the structurally weak equity market in Germany are easy to see the causes are not so clear.

It is all very well to rationalise the bourses and to simplify the process of obtaining public quotations—one may as well rearrange deck chairs on the Titanic. One of the main reasons for the weak structure of the equity market stems from the abundant sources of finance available from commercial banks in the past. The dominant lending position occupied by these banks has enabled them to hold significant equity stakes and influential positions on supervisory boards.

It is for this reason that companies have remained private. With the banking sector still a dominant force in Germany, transition to an equity-based system will remain slow.

Mark Hawtin,
Quilter Goodson and Co.
Rd Box 216,
31-45 Gresham Street, EC2.

Raffles wants a job

From Mr C. Nicodemou

Sir—After four years indulging in plagiarism with the plots of a mystery novel, I was somewhat disappointed to read (Lex, August 12) of the poor choice of a character for the role of a detective. Due to the statements printed in this article, I have subsequently altered my CVs to brandish my capabilities as a successful gambler and Raffles-type character, in an effort to receive an interview with a financial institution.

Chris Nicodemou,
20 Overlee Road,
Clifton, Renfrew.

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SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

Wednesday August 14 1985

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End of U.S. withholding draws bond buyers west

BY MAGGIE URRY IN LONDON

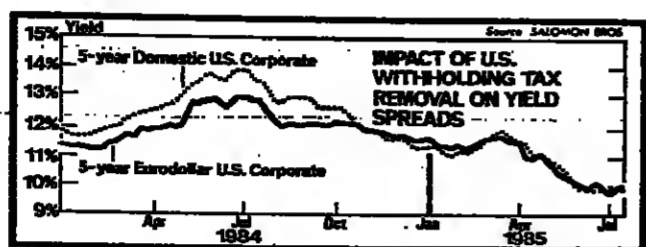
THE LIFTING OF U.S. withholding tax in July 1984 has had a significant impact on the Eurodollar bond market according to new research by Salomon Brothers, the major U.S. securities house.

The 30 per cent tax had been levied on income paid to foreign investors in the U.S. domestic bond market. These investors preferred to buy Eurobonds where the income was paid free of tax. As a result, bond buyers could raise money more cheaply in the Eurobond market than in the domestic market.

Salomon points out that "the removal of withholding tax made the domestic market more attractive to foreign investors." As a result, the yield differential between Eurodollar bonds and U.S. domestic bonds issued by U.S. borrowers has narrowed by around 30 basis points.

Borrowers who have ready access to both markets - mainly U.S. corporations - now find borrowing costs in the two markets more competitive. "On the primary market side, issuers now routinely compare the relative costs of the Eurodollar and domestic markets, targeting their offerings accordingly, thereby pushing the two markets into closer alignment," says the research.

Indeed, U.S. borrowers have been less prominent in the Eurobond new-issue market of late. This scarcity is beginning to bring down yields on U.S. corporate paper in



the Euromarket as investor demand exceeds supply.

To some extent, the research justifies the fears of many Eurobond market participants that the lifting of withholding tax would divert business from London - the centre of the Eurodollar bond market - back to New York. However, Salomon identifies a number of other factors which determine the yield differential, called the spread, between the Eurodollar and U.S. Treasury bond market - the benchmark primarily used when pricing Eurobonds.

Top-quality Eurodollar paper is trading at a spread of about 40 basis points above U.S. Treasury yields. This is towards the top end of the range seen in the past two years but is low compared with the levels of 100 to 150 basis points seen in the late 1970s and early 1980s. A return to spreads that high could have a much bigger impact on the Euro-

bond market than the withholding tax removal.

But Salomon does not expect this to happen. Since the period of high spreads, which coincided with times of dollar weakness, U.S. institutional investors have become more important buyers of Eurodollar bonds.

This increased buying should limit the rise in Eurodollar yields relative to Treasury yields caused by weakness in the dollar exchange rate, says Salomon. While many Euro-borrowers are deterred from buying dollar-denominated bonds for fear of making currency losses, dollar-based investors have fewer qualms. Salomon notes, though, that the recent weakness of the dollar has led to some rise in spreads.

Similarly, greater interest in the U.S. domestic market by traditional Eurobond investors since the repeal of withholding tax should also help to arbitrage away yield differentials between the two markets.

GBL wins takeover battle for Dupuis

By Ivo Dewdney in Brussels

THE SMURFS, cartoon heroes of Belgium's longest-running business soap opera, have been saved from a fate worse than death - compulsory French nationality.

That, at least, was one Brussels newspaper's interpretation of the outcome of the takeover battle for Dupuis, the publishing house which holds the rights to the blue-skinned petal promoters and other lovable cartoon characters.

The compromise deal between Groupe Bruxelles Lambert (GBL), Belgium's second-largest holding company, and Editions Mondiales, the French publisher, should now push the cheerful chappies off the front page.

The Smurfs saga began a year ago when GBL and another French publisher, Hachette, launched a friendly Bfr 1.35bn (\$24m) bid for Dupuis. Believing this had been formally accepted, the consortium was astonished when Dupuis announced it had instead accepted a rival offer from Editions Mondiales.

The drama then moved to the Brussels commercial court, which ordered a freeze on Dupuis shares while the legalities of the case were contested. The freeze was lifted last month, apparently in Editions Mondiales' favour, but a threat by GBL to spin out the story with an appeal led to yesterday's compromise.

The final agreement, valuing the takeover at Bfr 1.71bn, gives GBL 51 per cent of the shares with the remaining 49 per cent split equally between Hachette and Editions Mondiales.

The Belgian group will have control of Dupuis' printing, audiovisual activities and the lucrative cartoon books, while Editions Mondiales will take over the magazine interests.

Murdoch to buy Dynasty distributor

By William Hall in New York

MR RUPERT MURDOCH, the Australian-born publishing magnate, has agreed in principle to buy Metromedia Producers Corporation, which counts Dynasty, the U.S. soap opera, among its stable of TV programmes which it distributes to stations around the world.

The acquisition is the latest move by Mr Murdoch in his bid to establish a major U.S. TV network and follows the planned acquisition of six TV stations from the Metromedia group for \$2bn. In March Mr Murdoch paid \$250m for a half share in the 20th Century Fox Film Corporation, a major TV producer and syndicator based in Hollywood.

Metromedia Producers Corporation (MPC) is also engaged in producing, acquiring, financing and distributing TV programmes throughout the world on a syndicated (ie non-network) basis. Although MPC does produce programmes for TV, its record has been chequered, and it is best known for syndicated programmes, such as Dynasty, Charlie's Angels, and Starsky & Hutch to TV stations.

The cost of the latest deal is estimated at between \$20m and \$40m. Mr Murdoch is still waiting for Federal Communications Commission approval for his acquisition of Metromedia's TV stations. He is also understood to be close to finalising the renegotiation of the \$1.55bn in public debt issued by Metromedia Broadcasting Corporation in December 1984.

The obligation to repay this debt passes to Mr Murdoch on completion of the purchase of the Metromedia TV stations.

MCI to sell cellular side for \$120m

By Our Financial Staff

MCI Communications, the cut-price long-distance U.S. telephone carrier, has acted to end the confusion over its paging and cellular telephone businesses by reaching an agreement in principle to sell them for about \$120m.

The purchaser is McCaw Cellular, a privately owned company based in Everett, Washington state.

Last month MCI agreed to sell the businesses to Mobile Communications Corporation of America (MCCA) for \$121.5m, but it later repudiated the deal because it discovered MCCA planned to use the assets in a joint venture with BellSouth, the Bell telephone holding company. Both MCCA and BellSouth have said they would take legal action against MCI.

CHANGING NATURE OF CONSUMERS POSES THREAT TO RECOVERY

German retailers feel the cold

BY RUPERT CORNWELL IN BONN

AT SALE TIME in West Germany, the consumer's joy is the retailer's misery.

The bargains were higher than ever in the summer sales which have just finished in most German cities. The country's major retail organisations reported price reductions of up to 50 per cent.

The generosity of the special offers is a measure of the urgency the stores face in clearing stocks of unsold goods which piled up through yet another dismal year.

Private consumption - and, by extension, retailing - has so far been the orphan of Germany's export-led economic recovery. If GNP expands between 2.5 to 3 per cent last year, this year and next, growth of the retail sector will probably be half that. Overall private consumption, of which retailing accounts for roughly half, has been flat since 1980.

In its latest report, the Organisation for Economic Co-operation and Development (OECD) reckons West Germany's trade surplus - forecast at a record DM 70bn - will account for half 1985's entire economic growth. IFO, the Munich-based economic research institute, reported last month that a spring pick-up in the retailing industry fizzled out in June. Total investment by retailers this year is likely to drop by 1.5 per cent in real terms to DM 7.4bn.

But nowhere is the trend more visible than in the results of the "big four" German store groups. Karstadt, the largest, saw net 1984 earnings tumble to DM 23.9m from DM 90.4m in 1983. Karhof, its closest rival, fared better, limiting the decline to DM 60m from DM 66.9m. Herten, the smallest of the four, last month reported a drop in 1984 profits to DM 20m from DM 36m in 1983.

But all this pales beside the DM 140m losses run up by Herte, the third biggest store group, after a mere DM 16m deficit in 1983.

Admittedly 1984 was a peculiarly unfavourable time: a non-existent summer and the exceptionally hard-fought dispute in the engi-



Consumers looking for more personalised shops

neering industry, which led to a seven-week strike in May and June that year, cut into the spirit and the buying power of consumers. More ominously, however, 1985 is proving no better.

Turnover at Karstadt slipped a further 4 per cent in the first half - a figure rendered still more unflattering by the fact that its long-suffering mail-order subsidiary, Neckermann, which lost DM 400m between 1977 and 1984, actually improved its turnover by 7 per cent.

Between January and April, Karhof sold 1.7 per cent less in money terms than in the same months of 1984 and turnover is now running below the level of 1980. Even Herten, which is hoping to lift earnings in 1985, has announced a 1.9 per cent sales drop in the 12 months to February 1985.

But what makes such results so depressing for shareholders, who have seen their dividends at best maintained (at Karstadt) or re-

duced (at Karhof and Herten), is that to a large extent today's problems are beyond the control of mere managers.

If West Germany's present economic health has been built upon the ancient discipline of thrift, that thrift has meant holding personal incomes down. As the OECD remarked, even the DM 20bn tax cuts promised for next year and 1988 will do no more than make good the recent erosion of incomes.

Moreover, persistent unemployment of more than 2m does not merely remove a number of people from the marketplace; it also makes those still in work save more - and spend less - to protect their own futures.

More fundamentally, the nature of the German consumer is also changing. "We've reached a level of prosperity where, in many fields, people simply don't need to have more," says an analyst at the main

retailers' federation in Cologne. "They are also looking for smaller, more personalised shops, which meet their own individual requirements."

At home, the environmentalist movement is in part an expression of a mood that there is something inherently wrong about excessive consumption, after the spending boom which accompanied the surge in the national economy in the 1960s and 1970s.

Since then, Germany has become an increasingly leisure-oriented society. The fastest growth in consumer expenditure is expected in the years ahead in foreign holidays, hobbies and other spare-time pursuits. Further ahead still, beyond 1990, the effects of a falling population will really start to bite on the retail business, as the proportion of pensioners, with lower spending power, grows.

Not surprisingly, hypermarkets have already captured 13 per cent of the total German retail market.

Herr Friedrich Roesch, outgoing chairman of Karhof, said recently: "Success in this business will go to the people who specialise, build on their strengths and cut out their weak points." The recipe may be banal, but it is having a sweeping impact on the structure of the industry.

Stores are being restructured, and some are being closed. Product ranges have been revamped, and stores are incorporating speciality upmarket boutiques with separate brand names. The department-store groups are concentrating on building a fresher, more striking image and extending their operations to remunerative areas like travel.

The motto of the German department store used to be "everything under one roof." Now, in the words of Herr Roesch, the watchword is: "Not a little of everything, but as much as possible of comparatively little." But even if this is put into practice, the big groups face a future of running harder and harder just to stand still.

UK bank enlivens Euromarket

BY MAGGIE URRY IN LONDON

THE Eurodollar floating-rate note market was enlivened yesterday by the exchange offer Standard Chartered, the UK bank, is making to holders of its \$300m perpetual FRN launched last year. Traders regarded the terms of the deal as generous, and the price of the issue jumped by up to 50 basis points at one stage.

Holders will receive a new perpetual floating-rate note paying the same rate of interest but with a slightly less good ranking among creditors, plus a cash payment of 70 basis points. Standard Chartered benefits because the new issue ranks as primary capital.

Hopes that National Westminster and Barclays Bank would follow Standard Chartered's lead pushed up the prices of their perpetual issues by as much as 30 basis points, dealers said, before they slipped back.

The exchange was formulated by Credit Suisse First Boston and will take place in November if note holders agree.

The Eurodollar fixed-rate market was dull yesterday with prices drifting lower by around ¼ point. A flood of U.S. economic statistics this week is likely to keep traders on the sidelines.

Nomura International set the final terms for Nippon Suisan Kaisha's \$30m 10-year convertible as indicated with a 3¼ per cent coupon. The conversion price was set at ¥408 a share, a 5 per cent premium to the average share price over the last six days.

Another two Euroyen dual-currency issues appeared, raising ¥75bn. Yamachi International launched a ¥25bn 10-year issue for Hydro-Quebec, the Canadian electric power utility. This will be redeemed in U.S. dollars at an exchange rate of ¥208 to the dollar. The coupon was set at 8 per cent and issue price at 101½. Fees total 2 per cent.

That deal was followed by the biggest yet - a ¥50bn issue for Federal National Mortgage Association, the U.S. government agency, which comes in registered form. Like Hydro-Quebec's issue, and the crop of deals launched on Monday, terms were set at an 8 per cent coupon for 10 years and redemption at a ¥208 to the dollar exchange rate. Issue price was fixed by Nomura International at 101½.

All these dual-currency issues are swap related with syndicate managers expecting borrowers to get very fine terms on the swaps.

In the Euro-New Zealand dollar bond market Amro International launched a NZ\$40m deal for De Nationale Investeringbank, the National Investment Bank of the Netherlands. This has a five-year maturity with a 16 per cent coupon and per issue price. The proceeds are expected to be swapped.

Although the coupon is lower than other recent issues in this currency sector, the borrower is well-known to investors in the Benelux countries.

In the D-Mark Eurobond market dealers are still hoping for a cut in interest rates by the Bundesbank tomorrow, although a degree of nervousness is creeping in. The market suffered a lack of buying interest, and prices were lower by around ¼ point.

A firmer tone was detectable in the Swiss franc foreign bond market with some issues moving up by ¼ point or more. Hopes for interest-rate cuts are mounting. The Pan Am 6½ per cent convertible issue, which is being called this month, gained six points yesterday to trade at 134.

International bond service, Page 14

S.African platinum mine opens

BY WILLIAM HALL IN NEW YORK

AFTER years of consideration, South Africa's Rustenburg Platinum Holdings has decided to mine the UG2 reef which lies under the main platinum-bearing Merensky reef, notably at the company's Union section. Production of UG2 ore has already begun on a "significant" scale.

Disclosing the news in the Rustenburg annual report, Mr Gordon Waddell, chairman, points out that UG2 represents "a very important possible extension" of the lives of the company's present mines.

It was not worked before because of the greater ease of exploiting the less-deep Merensky, which contains a higher proportion of platinum to rhodium and has simpler

metallurgical characteristics.

However, in the event of the hoped-for expansion in demand for platinum-group metals it will be more advantageous for Rustenburg rapidly to increase production rate, extending its workings at depth to reach the UG2 than to set up a new mine and surface installations to tackle the Merensky elsewhere in the mining area.

Meanwhile, Mr Waddell thinks demand for platinum "is now probably in excess of the present supplies coming forward from the producers." He feels demand for significant quantities of the metal for use in car emission control catalysts to meet Western European needs will begin to rise before 1988.

Imports of platinum to Japan, notably for the important jewellery market, have risen a third this year, and U.S. imports of platinum ingots are running above the 1984 level. Sooner or later, says Mr Waddell, the dollar price of platinum should rise. It was \$294 an ounce yesterday compared with an average \$300 in Rustenburg's financial year to June 30.

Although U.S. prices for platinum were lower in 1984-85, the weakness of the South African rand boosted the sales revenue received by Rustenburg, and this, together with increased sales, resulted in earnings climbing 56.7 per cent to R156.9m (\$75.8m).

TWA defers decision on rival bids

BY TERRY DODSWORTH IN NEW YORK

THE board of TWA, the embattled transatlantic U.S. airline, deferred a decision on the two rival bids for the company yesterday as it sought to resolve the power struggle between Texas Air and Mr Carl Icahn, the Wall Street investor.

In a statement which suggested the St Louis-based company preferred the offer from Texas Air - revised to \$26 a share last week - the TWA board said it was "pleased"

the price had been increased.

But it said it was "mindful" of Mr Icahn's large stock position and the difficulty this posed to a merger. Mr Icahn, backed by two major unions in the airline, has assembled a 48 per cent stake in TWA, for which he has bid \$24 a share.

The company is also examining other proposals from Texas Air but declined to elaborate on them yesterday.

There have been suggestions Mr Icahn is preparing to sell his holding to Texas Air to realise a profit on his investment, made at prices substantially lower than the \$26 a share bid from the airline.

However, the financier is under an obligation to share some of these profits with the pilots' and mechanics' unions if he chooses to dispose of his stock.

GM plans \$575m plant expansion

BY OUR FINANCIAL STAFF

GENERAL MOTORS, the world's biggest car group, is to spend about \$575m to modernise its metal-stamping plant at Marion, Indiana. GM said yesterday that its Chevrolet-Pontiac-Canada group would spend about \$440m on modernising and expanding the plant by more than 325,000 sq ft, with the rest go-

ing on tooling and related items. The 30-year-old Marion plant produces sheet metal components for GM's car divisions. It employs 3,700, and GM said the modernisation was not expected to have a significant impact on employment.

Preliminary construction has begun, and the project is scheduled for completion in 1987. GM said the state of Indiana had pledged job-training funds in connection with the modernisation.

In July GM said it planned to invest up to \$600m to modernise its Mansfield-Ohio metal fabrication plant in Ohio. The plant will produce sheet metal parts

NEW ISSUE

All these securities having been sold, this announcement appears as a matter of record only.

August 1985



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INTL. COMPANIES & FINANCE

Kosmos in deal to thwart unwelcome bid from Laly

BY FAY GJETER IN OSLO

KOSMOS, the Norwegian shipping and industrial group, which is currently the target of a Nkr 1.1bn (U.S.\$94.4m) takeover bid by Laly, a Norwegian investment firm, has concluded a deal which could help thwart the acquisition.

Kosmos has bought from Norcem, another Norwegian industrial concern, the latter's 7.5 per cent stake in Norwegian Caribbean Lines (NCL), paying with 742,000 Kosmos shares, 596,000 of which are new.

The deal was concluded on August 9, under authority granted by a shareholders' meeting last year. Its effect, by increasing the total number of Kosmos shares from 8.46m to 10.06m is to raise the price tag

on the company.

The additional capital means that Laly would have to put up Nkr 1.17bn for a controlling 50.1 per cent shareholding.

At the same time, the Kosmos board has called a shareholders' meeting for next Tuesday at which it will seek authority for a one-for-five scrip issue, and a further issue of 2m shares to be carried out when required, to help finance acquisitions.

Kosmos says its management is currently working on several "strategically important" projects, which could be financed by such an issue.

The purchase of the NCL shares boosts Kosmos' stake in the cruise shipping company—controlled by the Norwegian

Kloster group—to 15 per cent.

According to Mr Herbjorn Hansson, financial director, it is in line with Kosmos strategy of expanding its interests in the hotel and travel sector.

Laly is controlled by Wilhelm and Arne Elystad, Norwegian brothers who have recently had a major impact in local financial circles through a series of aggressive takeover bids.

Their investment vehicle, Laly, was recently reorganised and is currently heavily liquid following a major issue of shares in June.

Both in their early thirties, the Elystad brothers have successfully pursued a takeover strategy of cornering shares in companies.

Hong Kong revokes Asiavest's licence

By Our Financial Staff

THE HONG KONG Commission for Deposit-Taking Companies has revoked the licence of Asiavest, a finance company, in a brief statement.

The Commission said the move was made at Asiavest's request. Asiavest's licence in May, saying that the company's business was being carried on in a "manner detrimental to depositors' interests."

Asiavest, which is controlled by Asiavest Merchant Bankers, of Kuala Lumpur, had a share capital of HK\$55m (U.S.\$7m) at the end of 1984. Its turnover for 1984 was HK\$25.73m, and it reported a loss of HK\$32.79m. Accumulated losses at the end of last year were HK\$36.68m. The company had outstanding loans and advances totalling HK\$70.27m.

Until 1982, Asiavest was controlled by Bank Negara Malaysia, the central bank of Malaysia. Asiavest Merchant Bankers acquired the central bank's stake in that year.

Downturn for Dunlop South Africa

By Jim Jones in Johannesburg

DUNLOP SOUTH AFRICA suffered a fall in both turnover and profit in the first half of 1985 and is not optimistic on immediate prospects, even though sales were higher than those for the second half of last year.

Turnover fell to R111.7m (\$54m) in the six months from R116.2m in the same half of 1984. First half pre-tax profits were R15.2m against R18.7m. For all of 1984 turnover totalled R215.9m and pre-tax profits were R28.2m.

Mr Peter Fathery, the chairman of the 52 per cent UK owned company, says the first half was a period of recovery from the severe business conditions of last year's second half but the short-term outlook is clouded by the problems of inflation and currency fluctuations.

First-half earnings fell to 51 cents a share from 58 cents and an unchanged interim dividend of 20 cents has been declared. For all of last year earnings were 96 cents a share and a dividend total of 75 cents was paid.

Mr Fathery expects this year's final dividend to match last year's and says that the terms of the merger with BTR South Africa will be announced at the end of this month.

Drink groups to spend S\$160m

BY CHRIS SHERWELL IN SINGAPORE

TWO OF Singapore's best-known corporate names, Fraser and Neave (F & N), the soft drinks manufacturer, and Malayan Breweries, its associate, are to invest S\$160m (U.S.\$73m) in facilities to modernise production and improve efficiency.

Mr Michael Fam, F & N's chairman, said yesterday that the expansion plans had been "brought forward to support the government's efforts to revive the economy," but had been decided upon for "hard business reasons."

The two companies are part of the constellation associated with the Oversea-Chinese Banking Corporation (OCBC), one of Singapore's "big four" local banks. F & N bottles Coca-Cola products and its own lines, while Malayan Breweries has Hainan, the world's largest beer exporter, as its foreign partner.

The new facilities will be located on the coast at the edge of the Jurong industrial area, and will allow expanded produc-

tion of beer, a wider variety of packaging, increased automation and closer integration. Funds for the project will be generated internally, and the first stage will be completed within four years.

The companies say that a key aim will be to increase exports. F & N currently exports 15 per cent of its output and wants to double the proportion. Malayan Breweries exports 30 per cent of its production already.

The need to modernise has become increasingly apparent in recent years. F & N's existing facilities in a developed part of urban Singapore, are now 33 years old. Malayan Breweries has two separate production sites nearby, and these started operation in 1952.

About S\$120m of the total investment will go on the new brewery, with 60 per cent of this to be spent on plant and equipment. Current capacity of 750,000 hectolitres will rise to 1m, and later 1.5m. The

remaining S\$40m will go on F & N's plant next door.

The companies describe their investments in lavish terms as "decisions that show confidence" and move "well into the next century." The intention is clearly to help boost Singapore at a time when the island state is suffering its worst economic reverse since the 1960s.

Last month F & N reported pre-tax profits of S\$55m for the year to March, a marginal improvement on the previous year, on a turnover of S\$242m. Mr Fam was especially outspoken about the problem of "parallel imports" of franchised products which exploited the market cultivated by F & N.

Malayan Breweries' results showed a bigger improvement. Pre-tax profits of almost S\$80m for the year to September were well up on the previous year's S\$48m on a turnover of S\$600m. This year is expected to return maintained profits.

Fermenta buys into Kabigen

By David Brown in Stockholm

FERMENTA, the Swedish antibiotics and biotechnology group, has bought a 10 per cent stake in Kabigen, the gene technology company, from Kemal Nobel (Sweden's leading chemicals group) for an unspecified sum.

The move "will combine Kabigen's competence in gene technology research and development with Fermenta's know-how and biotechnology production facilities, which implies a significant strengthening of both companies' competitive power in the biotechnology field," said Fermenta.

Thai Oil Refinery interim profits more than doubled

BY BOONSONG K'THANA IN BANGKOK

THAI OIL REFINERY (TORC), Thailand's largest private enterprise in terms of turnover, has reported net profits for the half year to March more than doubled to 125m baht (\$4.53m) from 47m baht in the same period of last year.

Mr Kasame Chatikavanij, TORC's chairman and managing director, said the result for the period is better than anticipated. He attributed the gain to the capacity maximisation of

the company's 65,000-barrel-per-day oil refinery on the country's eastern coast as well as to the greater procurement of cheaper crude oil input in the spot market.

Crude throughput in the period was 65,000 b/d, down from 65,800 b/d in the previous period. The gross refining margin was \$2.69 per barrel, down from \$2.74 a barrel in the previous period. Total assets rose to 5.99bn baht from 5.58bn baht.

All of these securities have been sold. This announcement appears as a matter of record only.

July, 1985

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Floating Rate Debentures
February 1992

For the six months 14th August 1985 to 14th February 1986 the Debentures will carry an interest rate of 8 1/2% per annum.

The relevant interest payment date will be 14th February 1986 and the amount of interest payable on each coupon will be U.S. \$428.06.

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The interest payable on each U.S.\$100,000 Note on the relevant interest payment date, 11th February 1986, against Coupon No. 8 will be US\$443.23

Agent Bank:

Lloyds Bank
International

August 6, 1985

Chrysler Financial Corporation

has acquired

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from

The E. F. Hutton Group Inc.

and has renamed the E. F. Hutton Credit Corporation

Chrysler Capital Corporation

The undersigned assisted in the negotiations and acted as financial advisor to Chrysler Financial Corporation in connection with this transaction.

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UK COMPANY NEWS

Unilever down in second quarter

A SECOND-quarter profit decline at Unilever, the Anglo-Dutch foods and consumer products group, left it with just a 4 per cent increase in taxable profits in the first half of 1985.

Down £5m at £280m, profits in the three months to June 30 were adversely affected by depressed markets, pressure on margins and restructuring costs in the edible fats operations; and by higher costs in the detergents business, especially in Germany.

In addition, the group's U.S. activities suffered from severe competition, particularly in the consumer products and toiletries operations. There was also the increased cost of implementing the investment programme in the U.S.

Half-year sales were up from £7.92m to £8.28m for an operating profit of £503m against £478m. After higher net charges for interest and other financial charges, the interim figure was just £13m ahead of £454m, and was subject to tax at £214m against £217m.

After minorities at £24m (£17m), attributable profits for the half year came out at £235m, down from £233m. This was after a below-the-line debit of £19m representing exchange rate translation differences. Earnings for the half year came to 60.0p per share (62.1p).

The second quarter, outside Europe and North America, the group achieved widespread



Sir Kenneth Durham, chairman of Unilever

profit gains, including a positive first time contribution in the half from Brooke Bond, which was acquired last year.

Second quarter sales came to £4.55m against £4.06m, a rise of some 11 per cent and produced operating profits of £272m against £279m, to which was added £18m (£13m) from the share of associated companies' profits. This increase largely reflects the inclusion of the results of Brooke Bond associates.

Other income from fixed investments came to £23m (£22m) in the quarter, and interest receivable and similar income added more at £28m against £21m, but interest charges rose from £42m to £33m. The higher net interest costs were primarily due to acquisitions. Unilever made 10 purchases of various sizes during the first half, and disposed of 11 companies.

The second quarter saw a reduction in the tax charge from £124m to £111m, mainly from lower tax rates in the UK, and there was a debit of £2m (£11m) as a tax adjustment for previous years.

Minority interests accounted for £13m (£10m). If end of quarter exchange rates are applied to the attributable profit, it decreases by 7 per cent in sterling, increases by 4 per cent in dollars, and is virtually unchanged in Dutch guilders. An extraordinary debit of £10m reflects the translation of the results to end of quarter exchange rates, leaving attributable profits at £129m (same).

Combined earnings per share of the UK and Dutch sides of the group are shown at 24.48p against 27.15p for the three-month period.

The directors say that the strategy of concentrating the core businesses of the group made good progress during the half year. The largest acquisition was the flavours and perfumery business Norda, with operations in the U.S. and in Canada, and it also entered into a joint venture with a detergents and personal products company in Korea.

The main disposals made during the period were the transport companies Norfolk Line and SDP Group, the building materials company Kennedy's, and the floor and wall coverings company Nairn International. The most recent sale, announced last week, was that of the UK and Irish operations of the timber company Mallinson-Denny.

See Lex

Acquisitions give sales boost to Rotaflex

IN THE first half of 1985 Rotaflex, the light fitting manufacturer, has benefited from the extra sales provided by new acquisitions but not yet from the profits.

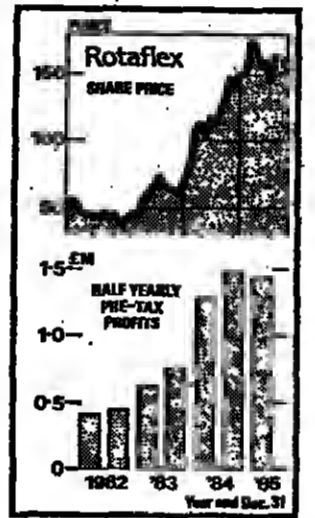
Sales, therefore, have expanded from £17.3m to £25.12m—equal to a 44 per cent rise—but profit before tax was ahead from £1.32m to £1.44m, or an increase of 12.1 per cent.

Sales in the traditional business continued to grow but most of the increase was derived from Le Despêche (France) and Fails (South Africa), whose acquisitions were completed only in the second half of 1984.

Net margins in the traditional business have been maintained. The new businesses are not expected to contribute significantly to profits until 1986.

Subject to no undue adverse influences from outside factors, such as currency fluctuations, the directors expect the company to achieve a satisfactory result in the second half. They are raising the interim dividend to 1.5p net (1.3p)—total for 1984-85 4.5p paid from profits of £2.6m.

The directors are particularly encouraged by the success of the new product launches from both Concord and Lumiance. Emphasis is on new products and businesses,



which are complementary to the company's area of focus, continues.

Moves by Linolite and Lumiance, and the integration of Le Despêche and Fails with the existing businesses are going well and will be completed during the autumn. Accordingly, the company is on plan to meet the targeted results for 1985.

After tax of £282,000 (£237,000) for the half, the net profit came out at £1m (£945,000) for earnings of 8.4p (8p) per share. In addition there is £54,000 (£33,000) written off goodwill.

comment

ROTAFLEX's associates are proving only marginally less leaky in 1985 than last year when the trio lost the group in excess of £600,000 for the full twelve months. The crunch point must be close at hand and one way or another it would be surprising if 1985's losses totalled much more than the £2m or so lost to date. Associates have obviously held the group back, while moving two production plants has been a handicap and last year's two acquisitions—Le Despêche and Fails—are chipping in plenty of sales but precious little to profits after financing costs.

So the interim profits rise of an eighth must rate as a fair achievement. Mr. Fry's earlier remarks about a year of "consolidation" have now been substituted by expressions of a "satisfactory result," so tentative forecasts of £24m made last April, can now be repeated with more confidence even though the general lighting market looks a little softer than it did a few months ago. The shares slipped to 163p yesterday, leaving the prospective p/e at 21. That looks fair value as we get closer to 1986 when the trappings of plant moves and double running costs fade into the background and Dauphin starts to produce a decent return on its £77.7m of sales.

That produced a profit outcome for the year of £1.3m (£1.76m), on turnover up by 10 per cent to £15.45m from £14.0m. The dividend is raised to 1.5p net from last year's 1.3p adjusted for the one-for-one scrip issue at the end of last year. The total payment is 4.5p against an adjusted 3.75p.

During the year the company, which makes prisms and nursery furniture, invested in increasing

Matthew Clark rises 40% and lifts final

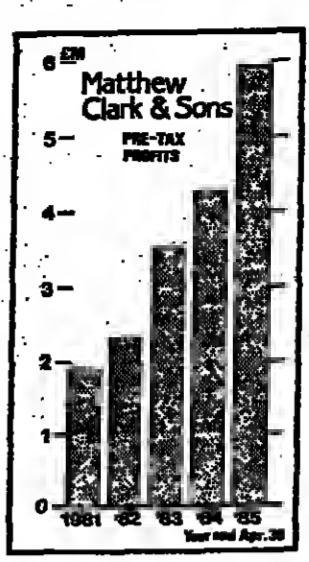
THE GROWING popularity of the product range at Matthew Clark and Sons (Holdings), the wine and spirit distributor and retailer, whose market is reflected in 1984-85 results, the directors say.

At £5.96m pre-tax, the profit for the year ended April 30 1985 shows a 20 per cent advance over the comparable £4.96m. And shareholders benefit further—after a 1p lift to the interim dividend the final is raised by a similar amount to 9p, making a total of 14p. They will also receive a one-for-one scrip issue.

The directors say, at this stage, they cannot predict an increase in profit of that magnitude for the current year, but tell shareholders that trading has continued at an encouraging level. All divisions are showing solid all-round growth in the opening months.

They feel that some £900,000 of the 1984-85 profit increase can be attributed to an exceptionally high level of sales for the year, and a success in the promotion campaign in the summer, and a boost in sales of Stone's Ginger Wine resulting from the exceptionally cold winter.

Matthew's sales of both British sherry and of light British wine have continued to increase. It extended its sequence of record profits to 23 years, and John Ansell and Partners' total income increased by over 40 per cent. Crokerton Distribution failed to achieve the looked-for improvement and, as indicated at



paid from May 1 to December 31. Group turnover in 1984-85 moved ahead from £79.94m to £87.54m including Customs and Excise Duty £34.19m (£33.31m). After tax £2.6m (£1.94m), the net attributable profit comes to £2.12m (£1.45m), or 48.8p (£33.9p) per share. Last time there was also an extraordinary credit of £130,000.

Finbury Distillery produced record profits from both its UK and export sales. Malcom Cowie extended its sequence of record profits to 23 years, and John Ansell and Partners' total income increased by over 40 per cent. Crokerton Distribution failed to achieve the looked-for improvement and, as indicated at

the interim stage, its scale of operation has been reduced and it has been merged into Matthew Clark and Sons. Its losses rose to more than £100,000 over the year.

comment

This was an exceptional year for Matthew Clark and the group is not afraid to admit it. First, there were some unusual Budget effects on Matthew's sherry, effects on the trade was understocked in the 1984 Budget, but overstocked in anticipation of duty increases in the 1985 Budget, and the consequent bulges in sales both fell in the last financial year. Second, the 200,000 or so paid to John Holt Vintners in commission the previous year was not repeated. Third, large number of imbibers from Stone's ginger wine a far from poisonous anti-freeze during the vicious winter. These exceptional factors, however, do not detract from Clark's strong underlying performance. Sherry may not be a growth market but it is not a declining one either. Matthew is taking an increasing share of it with its Old England brand and own-label lines supplied to supermarkets. Meanwhile the other brands such as Martell cognac, de Kuyper cherry brandy, Janssen armagnac and Taittinger champagne seem to be benefiting from a trend towards upmarket drinks and cocktails.

Matthew's figures were well ahead of forecasts of £5.3m and sent the shares up 50p to 62.5p. This year's growth will not be as rapid but it is well within reach, a figure which has the shares on a conservative prospective p/e ratio of 11 after a 40 per cent tax charge.

Mr. Harry Solomon, the joint chairman, has built the group by buying all the best names and knowledge of the industry, its designs and quality controls but perhaps we can help produce more growth. "We hope we can provide the right framework for the development and we believe we have bought it at the right price," Hillsdown's furniture interests make up less than 10 per cent of turnover.

Mr. Solomon said: "Christie-Tyler has a tremendous reputation for its knowledge of the industry, its designs and quality controls but perhaps we can help produce more growth. "We hope we can provide the right framework for the development and we believe we have bought it at the right price," Hillsdown's furniture interests make up less than 10 per cent of turnover.

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BBA to buy Uniroyal's belting interests in U.S. for £10m

BY DAVID GOODHART

BBA Group has announced an agreement in principle to buy the rubber, belting and hose interests of Uniroyal Inc in the U.S. and Canada for approximately £13.5m (£9.8m).

The acquisition is subject to an accountant's report on the assets and approval from the Canadian authorities.

It is the third this year by BBA which makes brake and clutch linings and conveyor belting. In June it bought the Dutch company Syntrel for £16.3m and in February it spent £15.75m on the motor business subsidiary of Cape Industries.

Uniroyal's rubber belting interests are in Ohio and Ontario. They have recently returned to profitability after some years of losses thanks in

part to the withdrawal from the Canadian market of A. S. Good. The company said that the acquisition "will enhance Scandura's product range to serve such markets as overhead conveyors, sand and gravel transport, and heavy duty bulk materials handling."

BBA last year saw a slight drop in its profits to £4.1m on turnover of £176m. To finance the present deal BBA has arranged a U.S. dollar currency swap facility which will be borrowed by a wholly-owned subsidiary. It will take BBA's gearing to about 40 per cent. The book value of the assets being acquired is £14m (£10.1m).

It is expected that £13m will be payable on completion on August 31, leaving £500,000 to be paid within 90 days.

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Net assets up 15% at Group Investors

THE BASIC net asset value for Group Investors at the year-end was 15 per cent higher than a year previously. The trust reported a net asset value of £14.8p at the end of 1984, compared with £12.7p. The figure fully diluted for options outstanding was 288.5p (£48.1p).

The directors are proposing a final payment of 2.5p net making a total for the year of 4.2p. That compared with last year's final of 2.5p and a total of 3.7p. Gross revenue showed an increase of 5 per cent to £897,000 (£854,000). That was made up of £718,000 (£698,000) from investments, interest on £1,000,000 (£954,000) and underwriting commission of £13,000 (£2,000).

With tax at £171,000 (£155,000), net attributable income of £726,000 (£696,000) came out at £399,000 (£386,000).

After tax of £282,000 (£237,000) for the half, the net profit came out at £1m (£945,000) for earnings of 8.4p (8p) per share. In addition there is £54,000 (£33,000) written off goodwill.

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Rustenburg Holdings Platinum Limited

(Incorporated in the Republic of South Africa)
REG. NO. 05/22452/06

The thirty-ninth Annual General Meeting of the Company will be held in Johannesburg on October 18, 1985

Extracts from the Chairman's Review by Mr G H Waddell.

For the year to June 30, 1985, profits after taxation at R156.9 million were the highest yet attained in rand terms and increased by 7.7% on the R145.8 million earned in the previous year. This substantial growth in profits had its origins in higher rand prices for both the platinum group metals and the base metals produced by Rustenburg; in greater volumes of sales of platinum, palladium, gold and base metals; in the continued strict control of costs by management; in increased productivity; and was achieved despite the imposition by the Minister of Finance of South Africa in the budget of what I hope is accurately described as a temporary surcharge of 15% on the rate of tax paid by mining companies other than gold and diamond mining companies.

Rand revenues from the sale of metals for the year to June 30, 1985 increased by R255.8 million to R1063.1 million or by 81.7% over the comparable figure of R807.3 million in the previous year. This is, in fact, the first time annual rand revenues have exceeded a billion rand.

All of Rustenburg's mines continued to improve both their efficiencies and productivity, and numerous new records were established from which those who are responsible for the management of the mines can draw great credit.

The outcome was that profit after taxation rose by 56.7% to R156.9 million. The interim dividend was doubled to 35 cents per share, both to reflect the improved results at that stage and to reduce the disparity between the interim and final dividends. Your Board also decided to increase the final dividend by 12.5 cents per share to 55 cents per share. Dividends declared therefore increased in the aggregate by 50% to 90 cents per share from the 60 cents per share declared in 1984.

It is a source of comfort given the nature to date of the platinum mining industry, that the Group has no debt and R233.9 million of cash with which to face the future.

PLATINUM PRICE. The average free market dollar price of platinum for the year to June 30, 1985 declined substantially to US\$900, a fall of 25% as compared with the comparable figure for the previous year of US\$1,190. This must be seen against the background that imports of platinum into Japan rose by 25.7% in the year to December 31, 1984. During the first five months to May 31, 1985, demand for platinum from that country quickened and imports of platinum rose further by no less than 57.8% over the same five months in 1984. Estimates of consumption within the United States of America in 1984 were revised upwards to 1,028,728 ounces (1983: 796,716 ounces). If account is also taken of what is known about the demand from Europe and elsewhere then current demand is now probably in excess of the present supplies coming forward from the producers.

Platinum because of its limited market size as compared with gold has always tended to be more volatile in price. This is still so, and platinum has continued to be priced at a significant discount to gold. It seems to me that the recognition of the reality both of the problems facing the United States of America and in particular the continuing necessity for that country to borrow huge sums of money from the rest of the world to finance its deficit on current account and of the much better balance between supply and demand for platinum are likely sooner or later to bring about a change for the better in the price of platinum in dollar terms.

AUTOMOBILE INDUSTRY. The United States Bureau of Mines estimate is that the American automobile industry purchased 722,000 ounces of platinum in the year to March 31, 1985. In Japan, the automobile industry sold domestically 3,053,395 cars and at £9,601,619 slightly more by way of exports. Both of these automobile industries continue to be of substantial importance for the producers of platinum.

GOLD FIELDS GROUP NEW WITS LIMITED

(Incorporated in the Republic of South Africa)
PRELIMINARY ANNOUNCEMENT OF RESULTS

	Year ended 30 June 1985	Year ended 30 June 1984
REVENUE		
Income from investments	12,078	10,456
Surplus on realisation of investments	1,047	21
Interest and sundry	751	428
	13,876	11,105
EXPENDITURE AND WRITE OFF		
Exploration	100	231
Administration	550	358
Written off	15	358
	13,231	10,016
PROFIT BEFORE TAX	645	1,089
Tax	12,945	10,016
	12,945	10,016
PROFIT AFTER TAX	12,945	10,016
Minority shareholders' interest	226	152
	12,719	9,864
PROFIT ATTRIBUTABLE TO MEMBERS	12,719	9,864
Unappropriated profit, brought forward	148	162
	12,867	10,026
Less:		
Dividends declared:	8,886	5,776
Interim 22.0c (18.0c)	2,541	2,079
Final 48.0c (32.0c)	5,545	3,697
Transfer to reserves	4,625	4,102
Unappropriated profit, carried forward	56	148
Earnings per share—cents	109	85
Dividends per share—cents	70	50
Times dividends covered	1.6	1.7
Net assets (as valued) per share—cents	1,657	1,533

ANNUAL REPORT
The annual report will be posted to members in September 1985.
DECLARATION OF FINAL DIVIDEND
Dividend No. 69 of 48 cents per share in respect of the year ended 30 June 1985 has been declared in South African currency, payable to members registered at the close of business on 30 August 1985.
Warrants will be posted on or about 1 October 1985.
Standard conditions relating to the payment of dividends are obtainable from the share transfer offices and the London Office of the company.
Requests for payment of the dividend in South African currency by members on the United Kingdom register must be received by the company on or before 30 August 1985 in accordance with the abovementioned conditions.
The register of members will be closed from 31 August to 6 September 1985, inclusive.

By order of the Board
per pro CONSOLIDATED GOLD FIELDS PLC
London Secretaries
Mrs. G. M. A. Gledhill, Secretary
United Kingdom Registrars
Hill Samuel Registrars Limited
6 Greencoat Place
London SW1P 1PL

London Office:
49 Moorgate
London EC2R 6BQ
13 August 1985

GOLD FIELDS GROUP GOLD FIELDS PROPERTY COMPANY LIMITED

(Incorporated in the Republic of South Africa)
PRELIMINARY ANNOUNCEMENT OF RESULTS

	Year ended 30 June 1985	Year ended 30 June 1984
TURNOVER		
	12,761	16,907
REVENUE		
Income from rent and sale of property	5,320	6,347
Income from investments	875	923
Surplus on realisation of investments/mineral rights	1,300	3,375
Income from dumps, interest and other sources	2,040	1,966
	9,435	12,611
EXPENDITURE		
Administration, property and general	1,698	1,459
Interest	37	65
	1,735	1,524
PROFIT BEFORE TAX	7,700	11,087
Tax	2,763	4,227
	4,937	6,860
PROFIT AFTER TAX	4,937	6,860
Unappropriated profit, brought forward	305	209
	5,242	7,069
Less:		
Dividends declared:	2,454	2,352
Interim 9.0c (—)	920	—
Final 15.0c (23.0c)	1,534	2,352
Transfer to reserves	2,444	4,412
Unappropriated profit, carried forward	122	305
Earnings per share—cents	48	67
Dividends per share—cents	24	23
Times dividends covered	2.0	2.9
Net assets (as valued) per share—cents	454	395

ANNUAL REPORT
The annual report will be posted to members in September 1985.

DECLARATION OF FINAL DIVIDEND

Dividend No. 125 of 15 cents per share in respect of the year ended 30 June 1985 has been declared in South African currency, payable to members registered at the close of business on 30 August 1985.
Warrants will be posted on or about 1 October 1985.
Standard conditions relating to the payment of dividends are obtainable from the share transfer offices and the London Office of the company.
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13 August 1985

METALS SURVEY

Publication Date: October 15, 1985
Copy Date: October 2, 1985

The Financial Times intends to publish a Survey on the Metals Market. Subjects which will be discussed include pricing and exchange rate fluctuations, options and managed funds. The role of the market maker will also be covered.

For advertising details contact:

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UK COMPANY NEWS

Stefan Wagstyl on the outlook for Britain's independent computer leasing companies

Facing up to the IBM challenge

GROWTH OF THE UK'S COMPUTER LEASING COMPANIES

	1980	1981	1982	1983	1984	1985
Atlantic Computers	£16.2m	£899,000	£36.1m	£10.5m	Dec	Dec
Comcap	£7.3m	£23,000	£23.6m	£2.9m	Dec	Dec
Dataseriv	£37.9m	£98,000	£110m	£3.45m	Dec	Dec
IBM	£14.3m	£228,000	£153.2m	£7.5m	Dec	Dec
United Leasing	£8.8m	£581,000	£176.3m	£5.3m	March	March

TRADING IN the shadow of IBM, Britain's independent computer leasing companies have learnt to jump quickly whenever the Big Blue makes a move.

Their reactions are likely to be tested severely in the coming months as IBM, which has recently suffered two consecutive falls in quarterly profits, steps up the pace in an effort to boost sales.

The independents, with lease portfolios made up almost entirely of IBM equipment, will be striving to make the most of IBM's launch of its first big mainframe range for four years—the 3090 series, popularly known as the Sierra—which is due to arrive in Europe in October.

The challenge will be particularly acute in the UK, where IBM is expanding its own leasing activities. IBM UK Financial Services last month announced a new lease, cheaper and more flexible than its previous offerings.

IBM only started leasing in 1981 in the U.S. and in 1983 in the UK, but is already the world's largest lessor of its own equipment. In the UK last year its leases accounted for more than £70m of its equipment sales of about £750m. This year it hopes for substantially more.

The independents also face continuing competition from their traditional rivals, the big banks, which dominate the UK leasing industry, and accounted for an estimated £900m of IBM equipment leasing last year.

But the specialist computer leasing companies, also sharing a UK turnover last year of about £200m, are in a confident mood.

"Business is steaming ahead," says Mr. Parry Mitchell, chairman and chief executive of United Leasing, one of the UK's five quoted computer leasing companies. United has just signed the largest deal in its history—a £10m agreement with the Royal Bank of Scotland for two Sierra machines.

However, despite the fact that the independents have seen their sales rise by nearly 50 per cent a year according to broker Rowe and Pitman, there are those in the City who are not so sanguine about their future.

One analyst, who says that he is impressed with the independents' recent performance, adds that he still has "sleepless nights" about specialist computer leasing.

The root cause of these concerns is a fear that the indepen-

dents are constantly vulnerable to attack from IBM, which might change its marketing strategies without warning; this is compounded by a belief that most leasing companies are too optimistic in the way they account for their profits.

Moreover, say the critics, the industry's chequered history offers plenty of evidence of what can go wrong. At the heart of the argument is the way the independents do business. Like the banks and IBM leasing companies they lease new equipment to clients,

but unlike their rivals, they aim to make only a small profit from this transaction.

They rely instead on making most of their money on a piece of equipment after the original lease runs out—either on re-leasing or on selling the machine.

By taking this anticipated profit into account in pricing the original lease, the independents are able to offer very fine terms. One analyst says: "In the end they're not financial but they're in second-hand machines."

IBM itself is restrained from trading in second-hand equipment by anti-trust legislation in the U.S. and by EEC anti-monopoly rules in Europe. The banks meanwhile do not like the risks second-hand trading involves.

To trade in these ways, the independents rely heavily on their estimates of the future value of their portfolios.

The problem is not one of depreciation—because mainframe computers unlike cars or machine tools do not wear out—but of technological

obsolescence. The launch of a new IBM range can slash the value of existing machines. So the trick is always to guess IBM's next move.

Unfortunately, leasing companies have got this wrong in the past. The industry was born in the 1960s with IBM's launch of the world's first mutually compatible family of computers, the System/360. The machines were so successful that leasing companies wrote them off over anything up to 10 years. Inevitably some independents were caught out by the launch at the

beginning of the 1970s of the successor System/370, compounded by a slowdown in IBM sales.

An even larger disaster struck the leasing companies at the end of the 1970s with the introduction of the 308X and the 4380 series. The major casualty was the U.S. leasing company ITEL, which collapsed with losses of \$443m.

Memories of this bankruptcy are still vivid in London because it rebounded on the Lloyd's insurance market. Lloyd's lost money because it had insured part of the "residual" or second-hand value of ITEL machines, under the notorious "J" policies.

The industry argues that in the 1980s it has learnt from its mistakes, in particular in being more cautious about how much "residual" profit is taken into account when a lease is signed.

Mr. Nick Kennedy Scott, joint managing director of Comcap, the most conservative of the UK leasing companies, says: "The industry is infinitely more sophisticated than it was in the early days, 15 or 20 years ago."

This may be. But more far-reaching have been the changes that have taken place in the IBM computer market place, making life less unpredictable for the leasing companies.

First of all, as a result of competitive pressures and the acceleration of technological change, the life-expectancy of a generation of IBM machines has fallen from over seven to under five years, smoothing out the impact of new machines on the market place.

This has been compounded by IBM's decision to abandon attempts to maintain prices through a computer's life cycle and instead bring down prices gradually over time—again in response to competition.

The relentless growth of the computer market has added greater depth to the leasing companies' client lists, increasing the opportunities for making equipment from one customer to another. A particular development is the growth in cross-border trade, to take advantage of different market conditions.

Among UK groups, IBL is especially active in several European countries. IBL creates opportunities for product specialisation. Dataserv, for example, concentrates in the U.S. on leasing cheque sorting and banking equipment.

Another way of reducing risk is diversification out of computer leasing. United has developed a range of different market conditions. Atlantic makes data communications equipment, and Comcap runs a specialist recruitment agency.

But it would be wrong to exaggerate the extent to which the specialist leasing companies' market place has grown more stable or predictable.

In the UK, where leasing has long been more tax-orientated than elsewhere, the whole leasing industry has been thrown into turmoil by the 1984 Budget. This is placing on the tax advantages enjoyed by the providers of lease finance, usually the big banks, which not only own their own leasing portfolios, but also those of the specialists.

The immediate effect has been to boost the volume of leasing to unprecedented levels (which tax advantages have still been available), but over the next two or three years volumes are expected to fall as the tax advantages disappear. The specialists may find it hard to

back the trend in these conditions, when straightforward loan finance may be more attractive than leasing.

The leasing companies can guard against tax changes by spreading their business across several countries. But there is no such protection against the overwhelming power of IBM.

For the moment, the leasing companies feel confident that they are well positioned to take advantage of the launch of the Sierra. This was originally expected a year ago but the delay has, if anything worked

to the independents' benefit, by extending the life of their existing portfolios.

IBM's expansion into leasing is more of an unknown quantity. Originally, the group only installed machines for rent, as to keep in close touch with its customers. But in the 1970s it found the cost of funding this huge portfolio too much to bear and ditched it outright sales.

By the end of the decade it found itself losing touch with customers, often to the advantage of competitors, so it started leasing on its own behalf.

BASE LENDING RATES

A.B.N. Bank	11 1/2%	Hill Samuel	11 1/2%
Allied Dunbar & Co.	11 1/2%	C. Hoare & Co.	11 1/2%
Allied Irish Bank	11 1/2%	Hongkong & Shanghai	11 1/2%
American Express Bank	11 1/2%	Johnson Matthey Bank	11 1/2%
Bank of Australia	11 1/2%	Knowles & Co. Ltd.	11 1/2%
Bank of Canada	11 1/2%	Lloyds Bank	11 1/2%
Bank of China	11 1/2%	Edwards & Sons Ltd.	11 1/2%
Bank of Cyprus	11 1/2%	Maghraj & Sons Ltd.	11 1/2%
Bank of India	11 1/2%	Midland Bank	11 1/2%
Bank of Ireland	11 1/2%	Morgan Grenfell	11 1/2%
Bank of Japan	11 1/2%	Mount-Credit Corp. Ltd.	11 1/2%
Bank of Korea	11 1/2%	National Bk. of Kuwait	11 1/2%
Bank of London	11 1/2%	National Girobank	11 1/2%
Bank of Mauritius	11 1/2%	Northern Bank Ltd.	11 1/2%
Bank of Mexico	11 1/2%	Norwich Gen. Trust	11 1/2%
Bank of New Zealand	11 1/2%	People's Trust	11 1/2%
Bank of Persia	11 1/2%	PK Finers, Intl. (UK)	11 1/2%
Bank of Portugal	11 1/2%	Provincial Trust Ltd.	11 1/2%
Bank of Romania	11 1/2%	R. Raphael & Sons	11 1/2%
Bank of Russia	11 1/2%	Royal Bank of Scotland	11 1/2%
Bank of Spain	11 1/2%	Royal Bank of Canada	11 1/2%
Bank of Sweden	11 1/2%	J. Henry Schroder Wagg	11 1/2%
Bank of Switzerland	11 1/2%	Standard Chartered	11 1/2%
Bank of the Netherlands	11 1/2%	Trustee Savings Bank	11 1/2%
Bank of the Philippines	11 1/2%	United Bank of Kuwait	11 1/2%
Bank of the Virgin Islands	11 1/2%	United Mizrahi Bank	11 1/2%
Bank of Transvaal	11 1/2%	Westpac Banking Corp.	11 1/2%
Bank of Uganda	11 1/2%	Whiteway Ltd.	11 1/2%
Bank of Zambia	11 1/2%	Williams & Glyn's	11 1/2%
Bank of Zimbabwe	11 1/2%	Yorkshire Bank	11 1/2%

GOLD FIELDS GROUP VOGELSTRAUSBULT METAL HOLDINGS LTD.

(Incorporated in the Republic of South Africa)
INTERIM REPORT

	*Six months ended 30 June 1985	*Six months ended 30 June 1984	Year ended 30 June 1984
REVENUE			
Income from investments	2,500	1,294	4,219
Sundry	849	408	1,048
	3,349	1,702	5,267
EXPENDITURE AND WRITE OFF			
Administration	157	143	256
Exploration	—	—	2
Written off	—	—	5,143
	157	143	5,401
Profit/(Loss), before tax	3,192	1,559	(134)
Tax	391	227	67
Profit/(Loss) after tax	2,801	1,332	(201)
* Unaudited			
Earnings per share—cents	15	7	28*
Dividends per share—cents	10	5	16
absorbing—R000	1,839	920	2,943
Times dividends covered	1.5	1.4	1.7
Earnings per share before write-off			
CONSOLIDATED BALANCE SHEET			
* At 30 June 1985	* At 30 June 1984	* At 31 Dec 1984	
Investments	R000	R000	R000
Loans advanced	24,102	22,776	23,022
Net current assets	904	1,054	1,105
Current assets	1,564	933	1,475
Less current liabilities	4,352	1,983	3,564
	2,708	1,050	2,091
Share capital	26,570	29,163	25,607
Reserves	9,448	9,448	9,448
	26,570	29,163	25,607

NOTES:
1. **DIVIDENDS** The final dividend (No. 76) of 11 cents per ordinary share in respect of the year ended 30 December 1984, absorbing R2,024,000 was declared on 30 January 1985 and paid on 20 March 1985.
2. **PROSPECTS** It is expected that coal and metal prices will continue their current high levels in Rand terms during the second half of the financial year. On this basis earnings for the year should be substantially higher than in 1984. It should be noted however, that the company intends to reduce the previously existing disparity between interim and final dividends. The 100 per cent increase in the interim dividend, therefore, should not be accepted as a guide to the possible total dividend distribution for 1985.

DECLARATION OF INTERIM DIVIDEND
Dividend No. 77 of 10 cents per share has been declared in South African currency, payable to members registered at the close of business on 30 August 1985.
Warrants will be posted on or about 1 October 1985.
Standard conditions relating to the payment of dividends are obtainable from the share transfer offices and the London Office of the company.
Requests for payment of the dividend in South African currency by members on the United Kingdom register must be received by the company on or before 30 August 1985 in accordance with the abovementioned conditions.
The register of members will be closed from 31 August to 6 September 1985, inclusive.

By order of the Board
per pro VOGELSTRAUSBULT METAL HOLDINGS LTD.
London Secretaries
B. A. van Rooyen, Chairman
A. J. Wright

Registered and Head Office:
Gold Fields Building
75 Fox Street
Johannesburg 2001
London EC2R 6BQ
13 August 1985

Hill Samuel Registrars Limited
6 Greencoat Place
London SW1P 1PL

Part of everyday life, in 75 countries.

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INVESTMENT TRUSTS—Cont.**MINES—Continued**[illegible]

LONDON STOCK EXCHANGE

MARKET REPORT

RECENT ISSUES

Equity leaders react after initial firmness on revived interest rate optimism

Account Dealing Dates

Option

First Declared Last Account

Dealing Dates

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FINANCIAL TIMES STOCK INDICES

	Aug. 13	Aug. 12	Aug. 11	Aug. 10	Aug. 9	Aug. 8	Aug. 7	Aug. 6	Aug. 5	Aug. 4	Aug. 3	Aug. 2	Aug. 1	Year
Government Secs	83.58	83.71	83.29	83.41	83.12	82.96	82.67	82.48	82.29	82.10	81.91	81.72	81.53	81.34
Fixed Interest	80.98	81.11	80.69	80.81	80.52	80.36	80.17	79.98	79.79	79.60	79.41	79.22	79.03	78.84
Ordinary	209.6	209.8	209.3	209.5	209.0	208.8	208.3	208.1	207.6	207.4	206.9	206.7	206.2	206.0
Gold Mines	243.0	243.1	242.5	242.7	242.2	241.9	241.4	241.1	240.6	240.4	239.9	239.7	239.2	239.0
Ord. Div. Yield	4.88	4.85	4.87	4.88	4.87	4.86	4.85	4.84	4.83	4.82	4.81	4.80	4.79	4.78
Earnings, Div. Yield	12.02	11.99	11.99	12.04	12.03	12.06	12.05	12.04	12.03	12.02	12.01	12.00	11.99	11.98
P/E Ratio (net)	10.86	10.80	10.82	10.85	10.88	10.91	10.94	10.97	11.00	11.03	11.06	11.09	11.12	11.15
Total Returns (Est.)	32.903	32.903	32.903	32.903	32.903	32.903	32.903	32.903	32.903	32.903	32.903	32.903	32.903	32.903
Equity turnover	10.86	10.80	10.82	10.85	10.88	10.91	10.94	10.97	11.00	11.03	11.06	11.09	11.12	11.15
Shares traded (m)	177.2	180.3	181.2	182.1	183.0	183.9	184.8	185.7	186.6	187.5	188.4	189.3	190.2	191.1

10 am 955.2, 11 am 964.3, Noon 962.2, 1 pm 960.4, 2 pm 960.1, 3 pm 960.0, 4 pm 960.4.

Day's High 966.0, Day's Low 955.5.

Basin 100 Gov. Secs, 15/10/28, Fixed Int. 197.5, Ordinary 177/35.

Gold Mines 12/3/55, Last Activity 1974.

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disappointing second-quarter

profits, while Glaxo reflected

currency influences and fell 4

to 13.3. Metal Box, on the other

hand, advanced 11 to 483p, after

480p, as sudden demand found

Stock in short supply. Bechtel and

Colman reacted from an early

firm level of 515p to close only

5 dears at 510p. Secondary

issues were featured by a fall of

15 to 50p in Christie-Taylor after

news of the agreed cash offer of

60p per share from Hillside; 5

better at 160p; CT had jumped

22p on Monday following news of

the bid approach. British Syphon

continued to reflect rationalisation

plans with a gain of 8

at 120p.

The Leisure sector displayed

several bright spots. Renewed

demand in a restricted market

lifted First Leisure 7 to 31p,

while Leisure 2 rose 1p to 12p.

Barton gained 8 to 120p helped by the

news of a new theatre and

newspaper comment.

Public relations concern Good

Relations encountered further

profit-taking and dipped 11 more

to 287p in the absence of any

bid news; both Saatchi and

Saatchi and Lowe Howard-Spink

have recently been mentioned

as possible suitors.

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued on Page 20

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AMEX COMPOSITE PRICES

Stock	Hi	P/E	Stk	Div	Yld	100s	High	Low	Close	Change	Stock	Hi	P/E	Stk	Div	Yld	100s	High	Low	Close	Change	Stock	Hi	P/E	Stk	Div	Yld	100s	High	Low	Close	Change						
Adlon	716	25	1	25							Diamond	20	30	3/4	25	3/4						Brooklyn	228	18	20	25	2/2	12	12	12	12	12						
AirCorp	14	17	7	25	25	25					Dynalco	16	88	13	12	1/2	1/2					Indef	56	30	12 1/2	12	12	12	12	12	12	12	12					
AirTel	25	17	7	25	25	25					Int'l	245	25	17	1/2	1/2						Indef	56	30	12 1/2	12	12	12	12	12	12	12	12	12				
Aerotec	80	61	12	40	40	40					Digison	11	11	1/4	1/4	1/4						Indef	56	30	12 1/2	12	12	12	12	12	12	12	12	12	12	12		
AirPro	30	81	12	40	40	40					Dynalco	20	17	216	85	81	67	54				Indef	56	30	12 1/2	12	12	12	12	12	12	12	12	12	12	12		
AirPro	30	81	12	40	40	40					Dynalco	20	17	216	85	81	67	54				Indef	56	30	12 1/2	12	12	12	12	12	12	12	12	12	12	12		
Alcan	120	14	13	13	13	13					Dynalco	20	17	216	85	81	67	54				Indef	56	30	12 1/2	12	12	12	12	12	12	12	12	12	12	12	12	
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Alcan	120	14	13	13	13	13																																

OVER-THE-COUNTER *Nasdaq national market, 2:30pm prices*[illegible]

FINANCIAL TIMES

WORLD STOCK MARKETS

WALL STREET

Retail sales build case for support

THE ANNOUNCEMENT that U.S. retail sales edged up by 0.4 per cent in July provided a slight boost to stock market confidence on Wall Street yesterday. Turnover remained thin, however, and equities were again held back by weakness in the bond market, writes Terry Byland in New York.

The gain in retail sales was slightly better than forecast in the stock market but indicated that consumer spending might not yet be providing the driving power needed to lift the economy in the second half of the year.

At 2pm, the Dow Jones industrial average was 4.03 up at 1,318.32.

Takeover prospects and other special situations again provided the main features. Market indices were helped by a recovery in Union Carbide, which regained \$1 of Monday's fall to reach \$49. The company said it was temporarily halting production of the chemical Aldicarb at its West Virginia plant following last Sunday's leak of toxic gas.

The Dow transportation average recovered ground, led by gains in some domestic airline stocks. There was heavy trading again in Pan Am, which traded \$4 off at \$89. The past week has seen substantial purchases of Pan Am stock by stock market arbitrageurs hoping for a bid move.

American Airlines, \$4 up at \$49, said

it had reached agreements with its workforce. At \$58, United added \$2. Brisk turnover in Eastern, a favoured recovery stock, left the price \$2 easier at \$11.

Technology stocks left Control Data to suffer alone for straying temporarily into technical default on some loans. At \$23, Control Data fell \$1 in active turnover.

IBM gained \$4 to \$127, with the restraint in Wall Street's belated stock helping to rein in the rest of the market. Also unexciting were Honeywell, \$4 better at \$84; Burroughs, \$4 up at \$63; and Digital Equipment, down \$4 at \$102.

Motor Stocks, however, remained sidelined by worries over the outlook for sales in the light of last week's statistics from the major Detroit names. General Motors shed \$2 to \$67 and Chrysler was out of favour again, dipping \$4 to \$35.

General Dynamics gained \$1 to \$77 after the U.S. Navy lifted the ban on new orders imposed after the investigation into contract payments. Other defence stocks were firm, and McDonnell Douglas added \$2 to \$78 on news of a contract for seven airliners for Japan. Boeing firmed \$2 to \$49.

TWA put on \$2 to \$22 on the board's announcement that it is postponing its decision on the rival bids for the airline from Texas Air, from Mr Carl Icahn, and from an employee group led by the former Governor of Missouri.

CBS jumped \$2 to \$111 in light trading as Wall Street pondered the chances for a new takeover bid - although Loews group has stressed that its newly-bought stake is strictly for investment purposes.

Turner Broadcasting dipped \$4 to \$18 after admitting that the expenses of the aborted bid for CBS will push it into a loss for the second quarter. MGM-

UA, Mr Ted Turner's new bid target, gained \$4 to \$24 awaiting the next move.

Other active features included M Lowenstein, \$3 higher at \$53 on disclosure that it is considering the sale of its 94 per cent stake in Clark Swibel Fiberglass.

Retail issues made little response to the federal sales data for last month. Sears added \$2 to \$35. The active spot was Revlon, \$1 up at \$43 on market hints that it might be a target for a bid from Richardson-Vicks, the medical products group which is itself seen as a takeover prospect. Among the utilities, United Energy Resources, which has agreed to its acquisition for \$1.14bn by MidCon, edged up \$4 to \$39.

But Middle South Utilities, refused a rate increase to pay for its \$3.5bn nuclear power plant, fell \$1 to \$10.

On the American Stock Exchange, Wickes Company, the timber and building materials group which has recovered rapidly from its financial problems, held unchanged at \$4 after a 1m block of shares changed hands.

The credit markets remained subdued beneath the weight of Treasury paper taken aboard at last week's auctions. Federal funds moved above 8 per cent again, discouraging the short end of the market. Bonds were about 1/4 of a point down, but turnover remained sluggish as the market waited for further evidence on the progress of the economy.

TOKYO

Dual dismay fuels fresh declines

THE BANKRUPTCY of Sanko Steamship and the crash of a Japan Air Lines (JAL) Boeing 747 pushed share prices lower in Tokyo yesterday, writes Shigeo Nishitani in Jiji Press.

The Nikkei-Dow market average shed 48.17 points from the previous day to 12,326.71. Turnover shrank to 167m shares from Monday's 205m. Declines outnumbered advances by 482 to 263, with 155 issues unchanged.

Sanko, the leading tanker operator, went bankrupt with liabilities of ¥500bn when it filed an application yesterday with the Kobe District Court for protection under the corporate rehabilitation law. The Tokyo Stock Exchange suspended the day's trading in Sanko shares.

Three major banks for Sanko - Daiwa Bank, Long-Term Credit Bank of Japan (LTCB) and Tokai Bank - came under heavy small-lot selling pressure. Daiwa lost ¥30 to ¥100 and LTCB ¥150 to ¥180. Tokai ended at ¥90, unchanged from the previous day's finish. Their outstanding loans to Sanko stand at ¥200bn.

JAL suffered a daily allowable loss of ¥1,000 to ¥8,000. All Nippon Airways, the second largest Japanese carrier and the fourth busiest state with a turnover of 4.5bn shares, fell ¥19 to ¥88.

Wakamatsu Construction topped the active list with 6m shares changing hands and rose ¥3 to ¥720. Shokusan Jutaku Sogo, the eighth most active stock with 2.48m shares, advanced ¥4 to ¥369, supported by a reported government policy to lower interest rates on housing loans for individuals. Meidensha added ¥17 to ¥441 and Nippon Gakki ¥40 to ¥1,250.

Bond prices strengthened in reaction to the yen's firmness against the dollar. Major U.S. economic indicators to be released this week are expected to show sustained stagnation of the U.S. economy, prompting investor expectations for U.S. interest rates to fall.

The yield on 6.8 per cent government bonds, falling due in December 1984, dropped to 6.295 per cent from the previous day's 6.310 per cent.

HONG KONG

A TECHNICAL reaction to recent improvements pushed prices lower in Hong Kong on reduced turnover.

The Hang Seng index, which increased 23 points on Monday, lost 12.94 to close at 1,687.09.

Hutchison Whampoa closed unchanged at HK\$28, after several days of gains on the basis that it is considering the purchase of a stake in Jardine Matheson or Hongkong Land. Jardine dropped 20 cents to HK\$13.60 and Hongkong Land was unchanged at HK\$6.65.

SINGAPORE

A DECLINE across a broad front developed in Singapore on increased turnover.

The Straits Times index contracted 5.94 to 745.92, reflecting generally small price reductions.

DBS was the most active stock, easing 10 cents to S\$5.0, while OCBC lost 15 cents to S\$8.0. Genting 5 cents to S\$5.50, Haw Par 3 cents to S\$2.09 and Lee Kim Tak 11 cents to S\$1.10.

Hotel, property and commodity stocks also eased, with Selangor Properties one of the largest losers, falling 8 cents to S\$1.60.

CANADA

DECLINES narrowly led advances in Toronto during moderate trading.

Gulf Canada, which as expected agreed to sell major assets to Petro-Canada, traded unchanged at C\$19, while trading in Canada Trust was halted pending a statement.

Montreal was marginally firmer with most indices ahead.

EUROPE

Rate signals lead to confusion

THE LETHARGY that has dominated the European stock markets in recent days spread yesterday to the bond market as investors detected confusing signals over the likely direction of short-term interest rates. Isolated corporate results or special situations provided the only real interest, while a number of airlines rose.

Frankfurt, which has seen a recent recovery over the possibility of the Bundesbank cutting interest rates, made a very cautious advance with a 5.4 rise in the Commerzbank index to 1,412.5.

Foreign buyers were absent as the dollar declined against the D-Mark, fueling hopes that the central bank will trim its lending rates at tomorrow's policy meeting.

Bond prices eased in very quiet trading, with losses of up to 20 basis points and sporadic gains of 10 basis points. The Bundesbank balanced the market with sales of DM-9.6m of paper compared with Monday's purchases of DM 20.2m.

In the stock market, car makers continued to lose ground with Porsche leading the decline as the quality sports car group, which depends on the U.S. market for a large portion of sales, dropped DM 17 to DM 1,283. Daimler suffered a DM 4 setback to DM 871.

Banks were steady in the light of interest rate possibilities with Commerzbank one of the few institutions to change from overnight levels with a 40 pig gain to DM 208.80. Chemicals were one of the few bright spots as Bayer put on DM 3 to DM 224, while BASF picked up DM 2.70 to DM 224.70.

Lufthansa benefited from a buy recommendation, taking the state airline DM 3 higher to DM 218.

The weaker dollar clouded Amsterdam as internationalists turned mixed. Unilever displayed some strength and

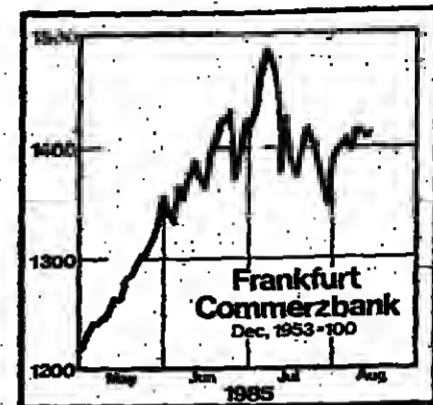
moved against the market on results with a FI 3 gain to FI 329.50 after the previous session's FI 5 drop.

Royal Dutch eased 30 cents to FI 189.00 and Philips, due to report today, edged 60 cents higher to FI 46.90.

KLM managed a modest 10 cent advance to FI 59.00.

ABN scored a dazzling FI 14 jump to FI 517 ex-rights, a new 1985 high, ahead of Friday's results and Amro firmed FI 1.70 to FI 87.50 on further consideration of last week's results.

Bonds eased where changed although the current shortage of paper has afforded some support to prices. There is some speculation that the Government



might come into the market with a new bond issue at the end of this month - as it did last year - since the state borrowing requirement for the rest of 1985 lies between FI 3bn and FI 4bn and only one more major issue this year is expected.

Light selective buying buoyed Brussels. UCB put on BFR 30 to BFR 5,050 on recent buy recommendations, while Groupe Bruxelles Lambert firmed BFR 10 to BFR 1,900 amid its announcement that it is to acquire a 51 per cent stake in Belgian publisher Editions Dupuis after a protracted legal battle with the French publishing concern Editions Mondiales.

Zurich stocks turned lower as the bond market firmed. Among internationalists Swissair dipped SwFr 15 to SwFr 1,450 and Nestlé added a further SwFr 10 to SwFr 6,780.

Paris and Milan lost ground in light trading, while Madrid secured a modest advance.

LONDON

Slow retreat from early strength

GILTS and leading equities were initially firmer yesterday in London as interest rate optimism resurfaced in the wake of sterling's renewed strength.

The FT Ordinary share index, after showing an initial improvement of one point, gradually weakened to close 4 1/2 lower at 959.6, thus virtually wiping out all of Monday's rise.

Gilts featured activity in medium-term issues. These were particularly popular as operators switched from the long-gains in the medium range to nearly 1/2 point, but the switching operations left longer-dated stocks with falls of that amount in places.

Chief price changes, Page 27; Details, Page 26; Share information service, Page 24-25.

AUSTRALIA

A SEARCH for undervalued industrial issues provided the momentum for a rise to another record by the All Ordinaries index in Sydney, which firmed a further 4.8 to 954.5.

Prominent among the advances were Burns Philp, which added 30 cents to A\$5.00; Australian Gas Light, up 8 cents to A\$5.24; and Industrial Equity, 10 cents higher at A\$7.10.

Mining leaders were also strong with BHP closing 6 cents higher at A\$7.00, MIM 7 cents up at A\$2.94 and North Broken Hill 1 cent improved at A\$2.48.

SOUTH AFRICA

UNCERTAINTY about the Government's statement tomorrow on possible political reforms led prices lower despite the stronger bullion price.

Randfontein fell R3 to R185, while among cheaper issues, Venters lost 50 cents to R16.35. Mining financials were also weaker and industrial stocks lacked a clear direction.

SWEDEN

IMF study leaks dampen enthusiasm

SWEDISH FINANCIAL markets reacted nervously yesterday to the outspoken criticism from the IMF about key aspects of Swedish economic policy and in particular the country's "recent unsatisfactory performance in cost and price development," writes Kevin Dwyer in Stockholm.

Publication of the normally confidential report was forced on the Government on Monday after leaks during the weekend from the IMF study had threatened to become a major political issue in the run-up to the September 15 general election.

Share prices fell sharply as stock market hopes of an early cut in interest rates diminished. The market was also depressed by disappointing quarterly results from Asea, one of Sweden's biggest industrial corporations.

Asea led the way down with a SKr 14 fall to SKr 305, followed by Electrolux

off SKr 8 to SKr 273, Volvo SKr 25 to SKr 233 and SKr 4 to SKr 225.

Money markets were unsettled by the release of trade figures for July that were worse than expected.

A major concern of the IMF report is the renewed deterioration in the country's external payments position this year after the strong improvement achieved in 1983 and 1984.

Sweden had a trade surplus of only SKr 500m in July compared with surplus of SKr 1bn in the same month last year. For the first seven months of the year the trade surplus was only SKr 5.8bn compared with SKr 18.3bn in the corresponding period of 1984.

The volume of exports this year is virtually unchanged, while the volume of imports has increased by around 10 per cent, according to the Central Statistical Office.

A Stockholm stockbroker said the

IMF report had put the Government in a difficult position. The Finance Minister had been forced to state categorically that the Social Democrats had no plans for increasing value added tax of 30 per cent generally tightening fiscal policy in the autumn, if re-elected.

The financial markets - like the IMF - had been counting on tighter fiscal measures after the election to take pressure off monetary policy and allow an easing of interest rates.

At a confidential meeting last week the executive directors of the IMF expressed the hope that the Swedish authorities "would be able to implement a fiscal package in the autumn adequate to turn around the external position, contribute to dampening cost and price inflation expectations and return fiscal developments to the path set out in the authorities' medium-term strategy."

KEY MARKET MONITORS				
End Month Figures				
FT-Actuaries All-Share Index				
1980	1981	1982	1983	1984
200	300	400	500	600
STOCK MARKET INDICES				
	Aug 13	Previous	Year Ago	
NEW YORK				
DJ Industrials	1,318.32	1,314.29	1,220.08	
DJ Transport	677.90	675.21	521.26	
DJ Utilities	155.52	154.86	128.28	
S&P Composite	188.14	187.63	165.43	
LONDON				
FT Ord	959.6	964.2	849.6	
FT-SE 100	1,285.1	1,288.1	1,084.1	
FT-A All-share	620.62	620.93	512.23	
FT-A 500	677.13	678.77	556.38	
FT Gold mines	343.5	349.1	563.0	
FT-A Long gilt	n/a	10.20	n/a	
TOKYO				
Nikkei-Dow	12,326.71	12,372.88	10,389.6	
Tokyo SE	994.51	989.13	803.57	
AUSTRALIA				
All Ord	954.2	949.7	734.0	
Metals & Mins.	552.4	547.8	470.3	
AUSTRIA				
Credit Aktien	95.76	95.26	53.22	
BELGIUM				
Belgian SE	2,319.87	2,318.11	-	
CANADA				
Toronto				
Metals & Mins	2,072.90	2,070.37	1,980.00	
Composite	2,781.30	2,778.01	2,340.7	
Montreal				
Portfolio	136.32	135.39	115.69	
DENMARK				
SE	n/a	212.96	196.3	
FRANCE				
CAC Gen	217.0	217.5	162.8	
Ind. Tendance	123.3	124.1	87.0	
WEST GERMANY				
FAZ-Aktien	479.76	478.30	338.66	
Commerzbank	1,412.5	1,407.1	982.5	
HONG KONG				
Hang Seng	1,687.09	1,693.43	926.39	
ITALY				
Banca Comm.	354.80	357.43	213.27	
NETHERLANDS				
ANP-CBS Gen	215.7	214.8	162.2	
ANP-CBS Ind	189.1	188.4	129.7	
NORWAY				
Oslo SE	344.17	340.94	283.75	
SINGAPORE				
Straits Times	745.92	751.86	948.67	
SOUTH AFRICA				
Gold				
Industrials				
SPAIN				
Madrid SE	110.27	110.16	97.04	
SWEDEN				
J & P	1,319.36	1,346.42	1,530.51	
SWITZERLAND				
Swiss Bank Ind	456.5	457.5	376.0	
WORLD				
Capital Int'l	Aug 12	Prev	Yearago	
	217.3	216.5	182.8	
GOLD (per ounce)				
	Aug 13	Prev		
London	\$326.25	\$326.00		
Zurich	\$326.25	\$326.75		
Paris (fixing)	\$326.74	\$326.46		
Luxembourg	\$328.50	\$328.75		
New York (Oct)	\$330.10	\$330.70		
COMMODITIES				
	Aug 13	Prev		
London				
Silver (spot fixing)	452.60p	454.50p		
Copper (cash)	£1,020.75	£1,021.00		
Coffee (Sept)	£1,530.00	£1,544.00		
Oil (spot Arabian Light)	\$27.40	\$27.35		

* Latest available figure

WHAT DO KIMBERLY-CLARK KNOW ABOUT POLYMER TECHNOLOGY?

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